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To Curb High Cost Economy

The sluggishness of Indonesia's economic growth rate during the last few years has increasingly made the government more aware of the economic problem faced by Indonesia today. The decline of the economic growth from approximately 7.9 per cent in 1981 to become approximately 2.2 per cent in 1982 was initially considered being the result of the world economic recession. Due to the continuing sluggish economic growth, however, more and more studies on its causes are being conducted with the expectation to acquire useful input for decision-making so as to enable Indonesia to achieve an optimal economic growth.

Facing the trend of the continuously declining oil prices, Indonesia willy-nilly has to take concrete steps to overcome the possibly negative impact that may arise. Indonesia's economy which has previously greatly relied on oil revenues needs a new orientation which is more directed towards non-oil and gas exports.

During these last two years, serious efforts to activate export, particularly those of non-oil and gas commodities have been made by Indonesia. However there are still many obstacles to be expeditiously surmounted. Those obstacles have caused Indonesia's export commodities become too expensive, which to a certain degree have made those commodities incapable to enter overseas markets. One of the obstacles often mentioned by producers and exporters was the complicated export and import procedures and the large amount of illegal levies to be paid by exporters/importers to certain red tape elements and the in-expeditious means of transportation. The high interest rate prevailing at present has increasingly augmented the weight of those obstacles.

To tackle this problem, on April 4, 1985, by virtue of Presidential Instruction No. 4/1985, the government took steps appear to be very effective. Compared to the export/import procedure presently in force, this Presidential Instruction No. 4/1985 is much more simple and different than the previous one. There are a few major points worth mentioning in this new regulation:

1. Export commodities will no longer be subject to examinations by the customs, unless it is suspected that mentioned commodities are categorised under restriction or export prohibition, or if those commodities, being subject to Export Duties/Additional Export Duties, are being unduly paid.

2. Export commodities which are granted an Export Certificate are verified at the country of destination by a surveyor assigned by the government and the payment of the Export Certificate is calculated on the basis of mentioned verification.

3. Imported goods can only enter the Indonesian customs area if they are covered by a Verification Report issued by a surveyor in the country of origin. The verification report will further become the basis for the payments by banks overseas, the sending of bill of lading by banks overseas to domestic foreign exchange banks; it will also form the basis for the calculation of the Sales Tax and the payment by importers of mentioned tax to foreign exchange banks.

4. The fixation of the price of imported goods which will be used as the basis for the calculation of import duties (with the same tariff throughout Indonesia) is to be made by the surveyor company on the basis of prevailing prices of the goods in the country of origin.

5. To smoothen the inter-island shipment of goods, stipulations on the notification of inter-island goods, of inter-island fiscal documents, freighters and freights have been abolished.

6. To minimise port fees some charges previously levied have been removed or reduced.

7. General Ocean Shipping, Archipelagic and Special Shipping Companies may become agencies of foreign shipping companies with regular and irregular shipping, which are either conference members or not. In addition, freighters of foreign shipping companies with appointed agencies, may enter Indonesia's waters and call on ports without any restriction as to the time of anchorage, frequency, kind and volume of the cargo to be loaded/unloaded, in accordance with the agreement between the Foreign Shipping Companies and their agencies. Whereas harbours open to anchorage cover all sea ports that are open to international trade.

From the stipulation cited above it becomes obvious that administratively some factors hampering the export/import procedure have been removed. The lessening of customs officers' authority will automatically facilitate importers/ exporters activities. It has often been stated by the mass media that malfeasance by certain customs officers was seriously hampering exporters/ importers' activities. The red tape costs was quite high; even more importers/ exporters complained that it was an intolerable burden or which constituted one of the prime factors that caused Indonesia's export commodities being incapable of competing abroad, or made basic material for domestic industries become very expensive.

Although this new regulation has been responded upon positively by the society and particularly the business community, one point is still being frequently queried. As a follow-up of the Presidential Instruction No. 4/1985, the government has assigned the SGS (Societe Generale de Surveillance SA), a Swiss-based surveyor company, as the surveyor for Indonesia in co-operation with PT Sucofindo (Superintending Company of Indonesia). According to some observers, the authority assigned to SGS is less beneficial to Indonesia, especially if mentioned stipulation is to be adopted for a long term period.

Aside from the flaw inherent in the assigning of the SGS as Indonesia's surveyor agent, as pointed out by some observers, it seems worthy to note that today there has not been as yet a body or institution owned by Indonesia that can function as the needed surveyor. Accordingly, in order to tackle the problem of high-cost economy expeditiously in accordance with the demands of Indonesia's economy today, the assignment of SGS can be justified while keeping in mind, that this assignment will be in force pending the establishment of a body owned by Indonesia which will be capable of functioning as a surveyor.

From the few measures taken by the government of Indonesia during these last few years; it seems obvious that the government is making efforts within its competence to solve the problem of high cost economy. The above mentioned Presidential Instruction No. 4/1985 is one of the series of steps taken to improve Indonesia's economy. Seemingly other series of measures will follow suit in the coming future. Political will seems to be very pronounced. The whole problem is how to direct those measures to become consistent so that their impact will not be counter productive in the attempt to diminish high cost economy.

Pande Radja SILALAHI

Some Notes on the Bill of Social Organisations

INTRODUCTION

In the plenary session of the House of Representatives (DPR) on 31 May 1985, the government together with the DPR passed the Bill on Social Organisations into law. With the passing of this Bill into law, it follows that the Government, together with the DPR, have passed the package of five Bills on politics into law, which are as follows:

1. Act on the General Election: Act No. 1/1985;
2. Act on the Composition and Position of the MPR (People's Consultative Assembly)/DPR/DPRD (Regional DPR): Act No. 2/1985;
3. Act on Political Parties and Golongan Karya: Act No. 3/1985;
4. Act on Referendum: Act No. 5/1985;
5. Act on Social Organisations: Act No. 8/1985.

The five Acts constitute one package of Laws on political development. All these Acts are the implementations of the People's decision laid down during the 1983 General Session of the MPR of the Republic of Indonesia.

From the five Acts, the last one (the Act on Social Organisations) encompasses the most difficult and complicated material, either during the preparatory process or in the debates, both within the DPR and among the society at large.

The Act on Social Organisations comprising 9 chapters and 20 articles constitutes an act which has been prepared and discussed carefully and has intensified interaction and reciprocal communications between the Government, DPR, Social and Political Organisations. Diverse consultations and dialogues have been conducted serving as a vehicle to prepare the Act on Social Organisations.

Major Problems

Three major issues came up concurrently with the preparation of this Act on Social Organisations, which are: (1) that concerning the meaning of Pancasila as the sole principle; (2) that on individual freedom or the freedom of organising; (3) that on religion.

The decision on Pancasila as the sole principle of socio-political organisations has called forth two problems: (1) whether organisations, aside from socio-political ones, have to abide by the principle as well; (2) whether the stipulation does not mean denying the existence of other principles so that Pancasila becomes an absolutely deterministic monolith.

Based on the MPR Decree it is obvious that not only political but also social organisations are expected to accept Pancasila as their sole principle. Hence the passing of the Bill on Social Organisations is indeed in line with the mind of the People's Consultative Assembly.

Would Pancasila become a monolithic dogma which is absolute and deterministic so as to reject other principles such as those belonging to the religious domain? This matter calls for more accurate reasoning and formulating. Accordingly in this regard the law gives a clear definition: "What is meant by the sole principle is the principle in the life of the state, nation and society."

Therefore, Pancasila as the sole principle is not a monolithic and absolute dogma, but a principle which is limitative in nature. This is in point of fact only an assertion that in the nation building process Pancasila constitutes the only national principle.

The problem on individual freedom and that of organising is an old problem. This problem came up because it is related to the stipulation on the dissolving and freezing of social organisations. Certain circles launched a strong reaction while asserting that freedom has an absolute value. This problem can be easily solved if one is aware of the fact that human freedom has never been absolute. Freedom is always related to duty and responsibility. National freedom also entails national responsibility. In this regard one is also aware that thanks to the existence of this Act the Government itself will also be bound and limited in terms of its authority.

This problem of freedom also relates to the fact that the Indonesian people constitute a heterogeneous society seen from various angles. Is it possible that one principle and order is laid down for such a heterogeneous society? Would it not be a violation of the individual or group's basic rights? This is also an old problem. Based on the principle "bhinneka tunggal ika" (unity in diversity) with regard to the Indonesian society, the problem has been principally solved. There is indeed heterogeneity in the Indonesian society concomitantly with homogeneity.

The complicated problem is that pertaining to religion. The core of the problems is whether religion will be subject to mentioned act. This problem en-

tails increasingly complex and accumulative problems, comprising among other things the following points: (1) whether a religious organisation is similar to a social organisation; (2) what is religion; (3) whether all religious organisations are religious institutions; (4) whether in a religious social organisation the religious factor has to be eliminated; (5) what do religious freedom and the freedom to observe one's religion mean in a Pancasila state and society.

The heightening of those cited issues was initiated by HMI's (Himpunan Mahasiswa Islam = Association of Islamic Students) rejection against the adoption of Pancasila as the sole principle of social organisations, particularly religious social organisations. This problem continued to prevail amongst various religious circles such as: MUI (Islamic Council of Ulamas), Muhammadiyah, NU, MAWI (The Indonesian Council of Bishops), PGI (Association of Indonesian Churches), PMKRI (Organisation of Catholic Students) and others.

That process seemed to lead to the awareness of the need for a distinction between pure religious institutions on the one hand and social organisations based on religion on the other. This is reflected in Article 1 of the Act itself: "In this Act what is meant by Social Organisation is an organisation formed by citizens of the Republic of Indonesia voluntarily and based on common activity, profession, function, religion, and the belief in the One Supreme God, to participate in development in the framework of achieving a National Aim in the Unitary State of the Republic of Indonesia which is based on Pancasila." In addition, it is also confirmed by the explanation of the Minister of Home Affairs that mentioned law is not an Act on religion but on social organisations.

Hence it seems obvious that the Church for example, or Islamic, Hindu or Budhist religious institutions are not subject to this act. But social organisations established by Indonesian believers of certain religions have to abide by this act. Therefore, religious institutions are not subject to this act as far as they are concerned with religious activities, but those which are concerned with social activities, state and national affairs have to comply with this Law. Religious Orders and Congregations, Budhist Monks and the like, for instance, do not have to abide by this regulation, but their public educational work have to comply with this act.

Pancasila as the sole principle relates to the life of the state, nation and society. Religious inspirations will undoubtedly remain an influential factor to every citizen but it cannot be used as a principle of the life of the state, nation and society for all Indonesian citizens and society. The religious specificity is not realized in the principle of the life of the state, nation and society, except

in their activity programmes. This means that religious organisations remain to play a role in the Indonesian society. The government has often asserted that: Pancasila is not a religion and vice versa. Religion will not be made Pancasila, conversely Pancasila will neither become a religion. The Indonesian people want one Pancasila as one principle which holds for all Indonesian citizens, irrespective of their different ethnic denominations, origin, race, descent, economy, religion and belief.

Background - Relevance

Those issues are basically not new for those who know their socio-political and historical context.

In fact, there has been an intent to work out a code of law on Social Organisations since 1967, but it is only being realised now. Historically the problem on social organisation is an *ideological* and *political* one. Ideologically the history of social organisation is one of a meeting point between the Indonesian national ideology, on the one hand, and those from outside, on the other, which are either religious or secular in nature. Ideologically it constitutes a meeting point between the national ideology and that of the Hellenistic and Semitic types.

Politically, social organisations constitute a substructure of political parties, nearly all of which are ideologically oriented.

It has been only since the New Order that efforts have been made to give it a distinct and sound meaning among other things by speeling out explicitly and defining the meaning and position of the Indonesian National ideology and constitution. By stages the social organisations have been led towards development programme oriented.

Here lies the relevance of mentioned act. Development in Indonesia will be continued. That development calls for a development of the society so as to become creative and productive through organisations. The role of social organisations will become greater and more decisive. To this end order is called for.

Prospect

This act has to be viewed as part of Indonesia's nation building process. Nationalism is an important factor and apparently it has its basis in the In-

donesian culture. Hence this act is also part of the development of the Indonesian culture. It is only in the present development that the Indonesian nation is able to explicitly state that the Indonesian *national development* is basically a practical application of Pancasila. This means that development is in principle a cultural process of the Indonesian nation itself. This cultural process is expressed in the life of the state, nation and society.

M. DJADIJONO

Law Number 9 of 1985 Concerning Fishery

On June 19, 1985 Indonesia has enacted Law Number 9/1985 concerning Fishery. This Law Number 9/1985 should specifically be called: the Indonesian Law concerning Fishery, since it is the first such Law concerning Fishery which has been promulgated upon the basis of the 1945 Constitution of the Republic of Indonesia after Indonesia has been proclaimed as an independent State on August 17, 1945.

During the last 40 years (1945-1985) Indonesia's Fishery has been performed and conducted on the basis of Ordinances enacted by the former Dutch Government. Their continuing validity in independent Indonesia is derived from Article II of the Transitional Provision of the 1945 Constitution which provides that: "All existing institutions and regulations of the State shall continue to function as long as new ones have not been enacted in conformity with this Constitution."

This Law Number 9/1985 has been promulgated based upon the 1945 Constitution, particularly upon the principle laid down in *Article 33 para. 3* which states: "Land and water and the natural resources therein shall be controlled by the State and shall be utilised for the greatest welfare of the people." This evidence is clearly stated in the Elucidation of the Law concerned emphasising the fact and/or the political will of the people and government of Indonesia to arrange and conduct their fishery along the above mentioned constitutional principles. These constitutional provisions basically indicate three fundamental principles, i.e. (1) the scope of governmental authority, (2) the scope of public versus private rights and obligations so as to permit, (3) the future development of environmental control.[1]

[1]See, Law Number 9 of 1985 concerning Fishery of June 19, 1985 and its Elucidation; further see St. Munadjat Danusaputro, *Environmental Legislation & Administration in Indonesia* (Bandung: Alumni, 1978, sec. ed. 1981), pp. 30-31.

These three fundamental principles have consistently been implemented in the provisions of the Law Number 9/1985 as it can be observed in its *35 Articles* divided into 11 Paragraphs. For this reason Law Number 9/1985 is considered as one of the fundamental legislative instruments expressing profoundly the implementation of the 1945 Constitution. As it is stated in the Elucidation, Law Number 9/1985 expressively stipulates the above mentioned three fundamental principles in its diverse 35 Articles with the desire to implement strictly the national basic policy as promulgated in the Guidelines of State Policy concerning fishery which aims at the rational exploitation of national fish resources for the greatest welfare of the people by materialising justice and equity and at the same time developing and improving the living standard of the fisherman. In this respect Law Number 9/1985 strives for the improvement and enhancement of the contribution of the fishery sector to the national development as it has been outlined in the Five-Year Development Plan (Repelita).

Law Number 9/1985

By pointing out the above mentioned characteristics of Law Number 9/1985, the author illustrates the big difference between Law Number 9/1985 and the Ordinances enacted by the former Dutch Government which have been promulgated upon a totally different basis. One major deficiency of these Ordinances can easily be shown by understanding their purpose which is always emphasised as embodying the principal aim for regulating: the fishing, or popularly termed as: "the catch of fish."

Conversely, Law Number 9/1985 is specially named as a Law concerning Fishery, indicating the purpose for providing the basic legal provisions concerning: (a) the policy on fishery; (b) the socio-economic aspects of fishery; (c) the management of fish resources; (d) the protection and conservation of fish resources; (e) the control and conduct of fishery activities; (f) the development and improvement of fishery supporting measures; and (g) the harmonisation of fishery regulations with the developments of the national and international Law of the Sea. By showing the provision concerning the aim to harmonise the fishery regulations with the development of the national and international Law of the Sea, a second major difference may be highlighted. The former Ordinances have been enacted upon the classic understanding and doctrine on archipelago as it is regulated in the Ordinance concerning Territorial Waters and Maritime Prohibited Areas of 1939 (Stbl. 1939 No. 442) which stipulates that every island of the Indonesian Archipelago has its own Territorial Sea with a width of three miles.

This stipulation is fundamentally in contradiction with the principle and modern regime concerning the meaning of an archipelago which is: "A group of islands, including parts of islands, interconnecting waters and other natural features which are so closely inter-related that such islands, waters, and other natural features from an intrinsic geographical, economic and political entity, or which historically have been regarded as such." This principle and regime are clearly stipulated in Law Number 4/Prp./1960 as they are internationally recognised and determined by Article 46 of the United Nations Convention on the Law of the Sea 1982. By the same Law Number 4/Prp./1960 the width of the Territorial Sea of Indonesia has been established up to a limit of 12 nautical miles, measured from the archipelagic baseline of Indonesia being an Archipelagic State in accordance with the provisions contained in Article 3 and Article 47 of the United Nations Convention on the Law of the Sea.[2]

Moreover, at the time that the Ordinances were promulgated, the world did not know yet about the concept and doctrine of the Exclusive Economic Zone (EEZ) which constitutes one of the latest developments of the Law of the Sea. The doctrine of EEZ has been enacted by Indonesia in its Law Number 5/1983 in conformity with the provisions of the United Nations Convention on the Law of the Sea as regulated in *PART V: Articles 55-75.* By these legislative arrangements concerning the EEZ, it is stipulated that: "In the EEZ, the coastal State has the sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the sea-bed and subsoil and the superjacent waters, and with regard to other activities for the economic exploitation and exploration of the zone, such as the production of energy from the water, currents and winds."

Problems and Policy

By referring to the latest developments of both the national and the international Law of the Sea, one will immediately be involved in the problem of the territorial application of Law Number 9/1985. Contemplating the principle that the structure and contents of each Law promulgated upon the basis of the Constitution demonstrate and act of expressing the existence of the State concerned, the birth of the Law Number 9/1985 accentuates the firm policy of Indonesia to develop and enhance the implementation of its Archipelagic Concept, specifically in the field of Fishery.

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[2]See: Law of the Republic of Indonesia Number 4/Prp./1960, and compare with the U.N. Convention on the Law of the Sea, which is discussed thoroughly in St. Munadjat Danusaputro book: "Wawasan Nusantara" *Book I* (dalam Ilmu, Politik dan Hukum = In Science, Politics and Law) (Bandung: Alumni, 1978).

Being an archipelagic State, Indonesia's geographical environment is rather unique in that it consists of 13,667 islands and islets studded by a complex system of waterways, of shallow seas bordered by deep sea trenches. The Indonesian waters, an area of almost 7,000,000 square kilometers, cover two-third of the Indonesian territory. Besides, Indonesia possesses the sovereign rights and jurisdiction within its EEZ of 200 miles in width which covers a sea-area of almost 2,700,000 square kilometers.

Understandably, how fully and wisely the resources -- especialy the living resources -- of these waters are utilised, will affect profoundly the economy of Indonesia, its ability to meet increasing demands for food and raw materials, its position and influence in the regional community of nations; its security and its environmental quality of life in which the aquatic environment performs the dominating factor. This very unique aquatic environment sets Indonesia side from most other similarly developing countries. Therefore, it would be natural if Indonesia's role in aquatic matters become increasingly larger. In order to realise the return from its maritime opportunities, specifically from its fishery resources, Indonesia is developing considerable attention and efforts to conduct intensive scientific surveys and research on its marine resources.

Some data of Indonesia's aquatic environment may be highlighted to show their implication upon the problems which Indonesia has to face in arranging and conducting its efforts to develop Fishery

Territorial waters (12 miles limit)	6,850,000	sq.km
Continental shelf (up to 200 miles depth)	3,000,000	sq.km
EEZ	2,770,000	sq.km
Tidal forest (most mangrove forests)	1,000,000	ha
Swamp forest	13,000,000	ha
Peat swamp forest	1,500,000	ha
Inland open waters	13,700,000	ha
Freshwater ponds	40,000	ha
Ricefield mix culture	78,000	ha
Brackishwater ponds	182,000	ha
Length of coastline of 13,667 islands	81,147	km

Source: Aprilani Soegiarto, "Aquatic Resources in Indonesia. Their Problems and Management," International Symposium for Energy, Resources and Environment, Jakarta, 24-25 February 1977.

The potentiality of aquatic resources has been estimated as follows:

Marine shrimp	:	125,000 tons/year
Skipjack	:	150,000 tons/year
Tuna	:	50,000 tons/year
Marine pelagic fishes	:	4,000,000 tons/year
Marine demersal fishes	:	3,000,000 tons/year
Inland fish capture	:	270,000 tons/year
Brackishwater shrimp	:	125,000 tons/year
Milk fish	:	360,000 tons/year
Eels	:	34,000 tons/year
Frogs	:	75,000 tons/year
Others	:	250,000 tons/year
Aquarium fishes	:	30,000,000 tons/year

Source: *Facts and Figures* (Jakarta: Directorate General of Fisheries, 1972).

According to experts' estimates, Indonesia's Sea and Land fishery can produce 7,600,000 tons of fish per year. But at the beginning of the First Repelita in 1967, production reached only 15 per cent of this amount due to *the backwardness of the Indonesian Fishery*. Nevertheless, a significant increase in production has been recorded in the past as shown in the following table:

AVERAGE ANNUAL FISH PRODUCTION DURING 1953 TO 1967
(in thousands of tons)

	1953-1957	1958-1962	1963-1967
Sea fishery	400	450	650
Land fishery	200	300	440

Source: The First Repelita: 1969/70 - 1973/74.

Although during that period production increased rapidly, per capita consumption remained low. It was estimated that at that time the per capita consumption was only *11 kilograms*, consisting of 6.6 kilograms of Land-fish and 4.4 kilograms of Sea-fish. This level of consumption was still far below that proposed by nutrition experts in order to assure proper health for the average Indonesian.

Indonesia's low fish production is caused by many factors. First, the technology used by Indonesian fisherman lags far behind the common international standard. For instance, Indonesian fishermen do not know yet the electronic fish-detector, a technique widely used in the fishery world. Furthermore, it was reported that in 1966 only 1.3 per cent of the whole Indonesian fishing fleet was motorised. The fishing fleet situation during 1960-1966 was reported by the First Repelita as follows:

TOTAL OF FISHING BOATS IN INDONESIA DURING 1960-1966

Year	Sailing Boats	Motorised Boats
1960	169,975	1,456
1961	195,421	2,211
1962	206,843	2,867
1963	212,681	2,989
1964	231,659	3,200
1965	225,419	3,342
1966	241,888	3,357

The problems of the Inland Fishery differ from those of the Sea Fishery As can be seen in the above mentioned table of Fish Production, the average Land-fish production was 440,000 tons during the year of 1963 to 1967. But of this 75 per cent came from natural waters, such as rivers, lakes, etc., while the rest came from artificial waters such as fishdams, ponds and rice fields. At the time of the beginning of the First Repelita the total area of fresh water ponds was 36,000 hectares, producing about 47,000 tons of fish annually. This production can be raised through improvements in the techniques of breeding, cultivation and the fish stocking system. Besides freshwater ponds, there are 120,000 hectares fishdams with an annual production of more than 41,000 tons of fish. This production can also be doubled through improvements in the techniques of breeding, cultivation and management.

Bearing in mind that fish constitutes a source of essential and cheap animal protein, at the same time produces commodity for the export, it is the strategical aim underlying the promulgation of Law Number 9/1985 to achieve a more rapid annual production increase by improving the fishery techniques and the fishery supporting measures. For this purpose, every 5 years period of the Repelita targets were set forth which should be reached by concerted efforts of both Government and People as has been emphasised more firmly in the provisions of Law Number 9/1985.

Development and Management of Indonesia's Fishery

With the birth of Law Number 9/1985, efforts to further develop and improve Indonesia's Fishery are strongly supported by a legislative basis containing the strategic direction for its modernisation and enhancement in accordance with the latest developments in science, politics and law. This strategic direction is composed by two components: (a) development, and (b) management. The main objectives for the development are composed of 2 parts: (i) The improvement of animal protein consumption by the Indonesian People, particularly which comes from the aquatic environment; and (ii) The increase of foreign exchange earnings from the fishery sectors. These objectives can be achieved through the increase of production by concentrating national efforts at the following directions: (1) Intensification of Sea Fishery; (2) Rehabilitation and construction of Fish Harbours; (3) Fishery research and survey; (4) Development of Land Fishery Resources; (5) Development of Land Fish Hatcheries; and (6) Development of Fishery Infrastructure.

For each of these efforts, preparations should be made and conducted based on research and exact calculation. In this context, the role of research and surveys is of great importance, as Indonesia has shown by conducting the last "Snellius Expedition II" from July 1984 to June 1985 in co-operation with the Dutch Government to survey the Indonesian waters, particularly the eastern part of the country. More seriously, Indonesia contemplates the big challenge of the research and survey of its EEZ in order to fulfill its obligations under International Law. Besides its rights and jurisdictions mentioned above, Indonesia also bears the obligation to determine the allowable catch of the living resources of its EEZ. Taking into account the best scientific evidence available to it, Indonesia has to ensure through proper conservation and management measures that the maintenance of the living resources in the EEZ is not endangered by over-exploitation. As appropriate, Indonesia has to co-operate with relevant sub-regional, regional and global organisations to this end.

Furthermore, Indonesia has to promote the objective of optimum utilisation of the living resources in the EEZ without prejudice to the above mentioned obligations. Besides, Indonesia must determine its capacity to harvest the living resources of its EEZ and where Indonesia does not have the capacity to harvest the entire allowable catch of its EEZ, it has to give other states access to the surplus of the allowable catch through agreements or other arrangements. In giving access to other states to its EEZ, Indonesia shall take into account all relevant factors, including, *inter alia,* the significance of the living resources of the area to its economy and other national interests, the right of land-locked states and the right of certain developing coastal states in

the sub-region or region, the requirements of developing countries in the sub-region or region in harvesting part of the surplus and the need to minimise economic dislocation in states whose nationals have habitually fished in the zone or which have made substantial efforts in research and identification of stocks.[3]

Obviously, all the obligations under International Law constitute a heavy burden upon Indonesia's shoulder for which Law Number 9/1985 submits the appropriate solutions. By acknowledging this significance of Law Number 9/1985, it may be stated that its birth and existence, at this juncture of Indonesia's stage of development, constitutes a real enlightenment, specifically for the fishery world.

St. Munadjat DANUSAPUTRO

[3]See, United Nations Convention on the Law of the Sea, espec. Articles 61, 62, 69 and 70. Furthermore, see St. Munadjat Danusaputro, *The Marine Environment of Southeast Asia*, (Bandung: Binacipta, 1981), particularly *Part 2* and *Part 5*.

Indonesia: Domestic Politics and Foreign Policy

Jusuf WANANDI

INTRODUCTION

Indonesia consists of more than 13,000 islands stretching over an area of about 3,000 miles from west to east and about 2,000 miles from north to south. Its population of 160 million comprises many ethnic groups and different races, with a variety of traditions, customs, and religions. About two-thirds of the population live on Java, which constitutes only 6 per cent of the total land area. This makes Java one of the most densely populated areas in the world. Some regions and islands are well developed but other regions, mostly in the eastern part of Indonesia, remain backward.

In spite of the remarkable economic progress achieved over the past 15 years, Indonesia still is a middle-income developing country with a per capita income of about US$650 in 1983. Demographically speaking, the population is very young. Therefore, the main challenge to the country is to generate sufficient employment to absorb a new labour force of about two million annually.

Indonesia's light manufacturing industries, which were developed under the important-substitution strategy of the 1970s, have not reached a maturation stage. Broadening of the industries has not been followed by a deepening of the industrial structure. Thus, Indonesia's industries remain highly dependent on importing intermediate inputs financed from the proceeds of oil exports. The country's dependence on oil remains high. Oil exports constitute

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about 60 per cent of the total export earnings, and the income from oil is a main source of financing of the government's budget.

Sustained growth during the past 15 years has raised the overall standard of living of the population. However, this high-growth period also has led to increasing inequalities in income, especially in the big cities, as well as in social status and in the distribution of political power all of which are a common phenomena in developing societies. A process of change in cultural values also takes place; the society has become more open and therefore, more sensitive to external influences.

On balance, the economic progress achieved during the last 15 years has brought about new, bigger, and more complex problems. However, sufficient capabilities are present to counteract them. This paper will describe the "race" between the problems which have emerged and will continue to emerge in the process of development and the development of capabilities in the society to overcome those problems. I think Indonesia has the fighting chance to win this race. In the process Indonesia undoubtedly will experience some social unrest, but they will not necessarily lead to a social revolution capable of destabilising the ruling government.

THE PROBLEMS AHEAD

Economic Problems and Their Impact on National Stability

It was only in 1982 that Indonesia began to feel the implications of the global recession. The growth of the country's GDP (gross domestic product) plummeted to 2.3 per cent from an annual average of 7 to 8 per cent in the period 1979-1981. The Indonesian economy, in particular its industrial sector, remains stagnant up until the end of 1984. It is expected that recovery will take place only at the end of 1985, provided that the price of oil can be sustained and the industrialised countries, in particular the United States and Japan, maintain a strong economic recovery while resisting protectionist pressures at home.

In addition to these external factors, Indonesian economic development will be affected by a host of internal factors. Since early 1983 a series of bold government measures have been undertaken in an effort to adjust to lower oil prices. Among those measures were: the devaluation of the rupiah by about 27 per cent; reduction of petroleum products subsidies through a 50 per cent increase in domestic prices; postponement of major capital intensive, heavy industrial projects which have high import components; policies to increase non-oil exports; partial liberalisation of the banking sector; reform of the tax

system; gradual liberalisation of the economy as a whole in which the private sector is to assume a greater role.

The results of these measures have been mixed. In macro-economic terms significant improvements have been achieved: the balance-of-payments position has been strengthened, and inflation has been kept at the one-digit level. Implementation of development projects, however has suffered from bureaucratic red tape, partly due to the centralisation of decision making, including centralised procurements. In addition, the so-called informal sector, which absorbs high numbers of unskilled labour -- especially in urban centres -- has suffered from the rationalisation policies enacted by the government.

To sum up, it can be said that the main economic problem faced by the country in the short-term is the uncertain global economic development In addition, internal uncertainties regarding the implementation of government policies have aggravated these conditions.

National stability, however, would not be threatened if the targets of the current development plan (Pelita IV) could be achieved, namely a 5 per cent real growth rate in GDP per annum in which resources are allocated to the generation of sufficient employment opportunities. Scarce resources must be used much more efficiently than before; this suggests the need for rationalisation of the public sector, a greater role of the private sector through the creation of linkages and stronger co-operation between the big, medium, and small enterprises, further strengthening of the co-operatives in rural communities, and support for the informal sector as a means to absorb labour in the urban areas.

Further restructuring efforts are necessary to increase the country's ability to export non-oil products. Industries will have to assume a bigger role in exporting finished and intermediate products, such as textiles and garments, wood products, cement, fertilizers and petroleum products. To overcome protectionism in many markets will become a major task for Indonesian exporters. Nonetheless, it is equally important to develop trading houses to market products in new, more difficult markets abroad. The development of new export items, in particular those relating to agro-industrial activities, is also called for. There are a number of obstacles in this field which need to be overcome; these include land acquisition policies, the relationship between estates and smallholders, as well as the appropriate credit policies.

The worstcase scenario regarding external economic developments features in oil prices dropping to US$20 a barrel, protectionism remaining severe, and the debt problems of the Third World remaining unresolved. Indonesia would still be able to survive economically, mainly due to its large domestic market, a

greatly improved performance of the agricultural sector in the provision of food, an industrial structure which, albeit its weaknesses is able to provide for the necessary basic products, such as clothing as well as fertilizers and cement.

It seems, however, that the political system which has been developed so far and will continue to evolve, would enable the country to prevent internal disintegration as a result of any prolonged economic hardship. Furthermore, the present government under President Soeharto has shown the ability to overcome national crises as exemplified by the bold policies taken in 1983 in response to uncertain external developments. In comparison to the situation in 1965, Indonesia today has reached a certain level of resilience in the various fields of life. It has developed political institutions supported by a growing middle class (comprised of the military, the bureaucracy, the professionals and businessmen) as well as by the majority of the people living in the rural areas.

Socio-Political Problems and Their Impact on National Stability

National stability cannot be achieved through economic development alone. In fact, the very success of economic development brings about new, more complex problems of distribution of income and political power. These add to the already difficult problems caused by disparities among the different regions, ethnic groups, races, and religions. The question is in how far the country's elite, which supports the present government, is aware of the complexity of the problems and realises the need for social and political development to overcome them. An equally important question is whether the main political institutions could effectively deal with those problems as well as continuing the present system of government by mobilising the support from the same coalition.

Formally speaking, the important institutions in the country are the People's Consultaive Assembly, the House of Representatives, the executive branch, and other such constitutional institutions. However, the importance of other political institutions, namely the armed forces, the functional group (Golkar) and the political parties, the corps of civil servants, mass organisations, academic institutions and the mass media, as well as the business community, lies in their ability to influence the constitutional institutions to accomodate changes in the society.

The Armed Forces

The generation of 1960, or the "generasi Akabri," is expected to take over the leadership of the Indonesian armed forces by 1988. As distinct from the

revolutionary generation of 1945, the generation of 1960 consists of graduates from the military academies. This coming generational change has prompted some questions to be raised with regard to the future unity of the armed forces and their ability to perform a socio-political role as part of the ''dual function.''

The dual function, meaning that the armed forces have both a defence role and a socio-political role, originates from the revolution during 1945-1950 that led to the creation of the armed forces, composed of freedom fighters, which are acknowledged as the co-founders of the Republic of Indonesia.

Observations suggest that the generation of 1960 is more united than the 1945 generation, which to a large extent reflected the diversities within Indonesia's post-revolutionary society. The armed forces' role in political affairs has matured, as illustrated by its ability to adjust its mode of participation in the last three general elections. The armed forces remain committed to a smooth process of political development but their support for Golkar, the ruling party, has become less direct. In the general elections of 1982, as distinct from the 1971 and 1977 elections, the armed forces were no longer involved in election campaigning and other such activities. In a sense, this less direct socio-political role reflects the politically more stable environment prevailing today. This change in the mode of political participation does not imply abandonment of the concept of the dual function, or alteration in the pattern of civil-military relations on which consensus continues to exist throughout the nation.

In general it can be said that the generation of 1960 is more professional than its predecessor. It retains an interest in the socio-political development of the country as a result of the educational system of the military academics and experience gained through territorial activities assigned to young officers. The greater professionalism of the armed forces has made its members more compliant and in that sense, has created more united armed forces. This development has been reinforced by the recent simplification and streamlining of the structure of the armed forces.

With this greater professionalism it can be expected that in the future more emphasis will be given to the armed forces' defence role. This shift in emphasis will be accelerated if indeed it is felt that the threat to Indonesia's national security in 10 to 15 years from now will no longer be solely internal in nature. If this is the case, Indonesia's defence requirements will change and the doctrine of total people's defence would no longer be sufficient. This would not necessarily mean, however, that the armed forces would "go back to the barracks."

The Corps of Civil Servants

The establishment of Korpri, the corps of civil servants, in the 1970s was necessitated by the very weak bureaucracy which existed following Indonesian independence. The Dutch colonial administration had not formed an efficient corps of indigenous civil servants as the British did in their colonies. The bureaucracy formed during the brief Japanese occupation was subject to serious fragmentation in the 1950s and 1960s because of the continuous struggle for power among political parties.

The technocratic and bureaucratic style of the New Order government has enabled Korpri to become a strong entity. Many view of this development with great concern feeling that the Indonesian bureaucracy has become very strong, but too rigid and too closed as well. This has resulted in a regimentation of the society by the bureaucracy, which in the course of time has become less accountable and less sensitive to aspirations from below. Thus, the very behaviour and practices of the bureaucracy threaten the successful implementation of the government's policies. Bureaucratic corruption has been identified by public opinion polls as the most serious threat to the country. Unsuccessful efforts to deal with this problem tend to undermine governmental credibility.

In a paternalistic society, such as present day Indonesia, it may not be easy to change the status and role of the bureaucracy. Neither is it conceivable that the spoils system practised during the era of liberal democracy from 1950 to 1958 will be reintroduced. Instead, the two other main socio-political forces in society, the armed forces and Golkar will be required to function as a counterbalance to the dominant role of the bureaucracy. Otherwise, the country will end up in a bureaucratic state which would become self-defeating.

Golkar and the Political Parties

This last year witnessed a process of consolidation within Golkar, organisationally as well as in terms of its leadership. Organisationally, registration of members and a programme for cadre training have been implemented. The new leadership has been given the task to streamline Golkar's partnership with the armed forces and Korpri.

The aim of the present consolidation is to establish an independent and mature Golkar capable of fulfilling the following three main tasks: (a) mobilising mass support and participation in national development programmes; (b) channeling the people's aspirations and opinions; and (c) controlling the government apparatus.

These tasks are not easy because an independent Golkar must function; simultaneously as the main supporter of the government and maintain its relevance as an organisation representing the people. It is hoped that if Golkar could perform this dual role successfully over the next 10 years or so, it could take the lead in defining the rules of the game of a Pancasila democracy, which in essence is based on popular sovereignty adapted to Indonesia's cultural values and political traditions.

The two other political parties, the *Partai Persatuan Pembangunan* (PPP = the United Development Party) and the *Partai Demokrasi Indonesia* (PDI = the Democratic Party of Indonesia), essentially face the same challenges as Golkar. Their position is not as difficult as that of Golkar -- which must rally support for the government; however, the PPP and PDI have not advanced much in their consolidation efforts partly due to the more limited facilities they received from the government and the armed forces compared to those granted to Golkar.

Political parties, however, have an advantage over Golkar because historically and traditionally they are based on a more effective group solidarity. Popular support for the political parties is significant. As shown from the latest general elections, the PPP and the PDI respectively were able to mobilise about 30 per cent and 10 per cent of the total vote. The question regards the role of political parties in a Pancasila democracy, in which they have fair opportunities to participate in national development efforts and eventually also to participate directly in the government.

Meanwhile, both political parties will need to resolve their internal problems. These originate from internal dissatisfaction on the part of the younger generation with the continuing domination by the older generation. Partly also, these problems are the result of the process of merging the different parties into the two political parties, the PPP and the PDI, and the recent required acceptance of Pancasila as the sole principle *(asas tunggal)* of all parties.

The PPP, formed by a merger of Islamic parties, is faced with the question of whether or not to open up the party to non-moslems, which would alienate many of its traditional supporters. Adoption of the Pancasila as the sole principle of the PPP will probably not change the structure and operations of the party in such a drastic fashion as to alienate its rank and file. A second internal problem of the PPP is the limited support for its current leadership which originates mainly from one group, namely the former *Partai Muslimin Indonesia* (Parmusi = the Indonesian Moslem Party). If this leadership fails to prove that it can serve the interests of the broader constituency, the next general elections may see a weakening of the PPP, a development which would not be in the interest of the nation. A weakening of the PPP could result in the

emergence of alienated groups seeking alternative ways and means to make themselves heard, often through radical methods and by the use of force. History, has shown that these kinds of movements come and go and express themselves differently from time to time. Occasionally, as in the case of the Darul Islam movement, the demand explicitly expressed was for the creation of an Islamic State. At other times, enforcement of the Islamic Law among believers has been sought through government legislation. With the adoption of Pancasila as the sole principle by political parties, the government hoped that religion would no longer be employed for political purposes. In the past religious issues have frequently been used to mobilise the masses to express anti-government sentiments. The recent riot in the densely populated area of Jakarta harbour, Tanjung Priok, is a case in point; religion was used as a vehicle for expressing dissatisfaction with the socio-economic conditions which resulted from government policies favouring economic rationalisation.

The PDI has not been able to resolve the problems arising out of the merger of ideologically diverse parties. Of them, the *Partai Nasional Indonesia* (PNI = Indonesian Nationalist Party) was the largest and historically most important. However, this party (the PDI) has not been able to adjust itself to new realities in which it has lost its traditional support base within the government bureaucracy. In addition, it has since suffered from personal rivalries within. Nonetheless, the PDI has a role to play in the development of a mature party system in Indonesia. It has been suggested that Golkar and the two political parties could well represent the entire spectrum of political aspirations in society, with the PDI as the populist party on the one end, the PPP as the conservative party on the other end, and Golkar as a moderate party representing professional and functional groups.

Other Political Institutions

Mass organisations are also required to adopt Pancasila as their sole principle. Initially, this proposition was rejected by many of the youth or students and religious mass organisations, since it was seen as an attempt to eliminate plurality of mass organisations and in community life in general. The proposition to introduce Pancasila as the sole principle for all political parties and mass organisations originates from the 1945 generation, which intends to bequeath a national system based on Pancasila. This is regarded as a means to safeguard the nation from serious political ruptures in the future. While the intentions are noble, a rigid implementation of this proposition could lead to the creation of a monolithic national system with all its dangers. In addition, a formal acceptance of that proposition by all political parties and mass organisations does not automatically provide for a guarantee that political and ideological conflicts may not arise in the future.

Mass organisations have functioned in the past mainly as extensions of political parties and were directly involved in the political and ideological struggle. This subordination was gradually repudiated as part of the New Order's political philosophy. Mass organisations were to become independent entities, and the aim was to enhance professionalism and functionalism amongst mass organisations in Indonesia.

Parallel to the above development, the political role of students and universities has undergone changes. The universities are no longer places for practical politics. The mass media's role, which is based on a code of ethics involving some self-restraint in reporting on sensitive issues that could lead to conflicts in society, might perhaps not be an ideal one, but has been performed successfully so far. The Indonesian mass media may ultimately emulate the Japanese one, which even with its freedom well understands what not to report for the sake of Japan's national interest.

The private (business) sector can play an important role in political life. It constitutes the core of the emerging middle class in a developing society, which usually becomes the bearer of democratic ideas. The Indonesian private sector is still weak, despite its remarkable growth during the last decade as a result of new economic opportunities. The role of the private sector in Indonesia's development often has become a source of controversy due to its racial connotation. The government and a growing subset of the society has come to the fore to resolving this problem.

The government on the one hand has devised policies to encourage the process of assimilation and integration of Indonesians of Chinese origin, and on the other hand has introduced measures to strengthen indigenous entrepreneurs, among other things by linking their business activities with the established ones, mostly managed by the state or Indonesian Chinese.

Changes in Cultural Values and Their Impact on National Development

At issue at present is how to develop a new national solidarity to replace the older one which emerged out of nationalism and national revolution under the leadership of the 1945 generation. Japan provides an example of a successful transformation of its national solidarity to be adjusted to the new realities, in which modern corporation have taken over the role of traditional groups. Japan's experience cannot be repeated. However, Indonesia's own history has shown the society's ability to adapt itself to and to absorb new cultural values from without. The Javanese culture has been in the forefront of the acculturation processes but has been able to preserve its essential cultural trait. Javanese culture continues to be predominant in Indonesian society as a whole, partly because the majority of the population are Javanese and partly

because of the dominance of Javanese in the government. It remains to be seen whether the Javanese culture has the ability to adapt itself fast enough to the need for cultural transformation towards modernisation.

There at least are two important concepts of the Javanese which have often been referred to as obstructing the process of modernisation. The first is the concept of harmony which is adhered to by traditional entities such as clans, big families, and villages. Manifestations of this concept in the village context are for example; the practice of consensus through deliberations or *musyawarah untuk mufakat* and mutual help or *gotong-royong* and *tolong-menolong.*

The question is whether this concept could find its manifestation in modern, urban societies, in the context of modern political parties and other new and modern institutions, which are likely to be affected by the dynamics of rapid economic development and influenced by a more international code of conduct based on Western values such as competition and individual accomplishments. Can this concept, in the wake of those changes and influences, lead to the development of a new national solidarity?

The second is the concept of power, which basically recognizes only one, central source of power. This tends to be manifested in the centralisation of power in Jakarta and in the hands of the government, namely the executive branch.

The question is whether this concept could be applied when the society becomes more complex as a result of development. It is often thought that in order to be able to cope with the more complex problems, the society needs a diversity of institutions, greater decentralisation, and a greater role of the legislative branch, the political parties, and the private sector.

NATIONAL DEVELOPMENT AND INDONESIA'S FOREIGN POLICY

Indonesia's active and independent foreign policy is bi-partisan and has the support of a wide segment of the society. This principle implies that Indonesia preserves its right of self-determination and its right to make its own foreign policy choices to serve its national interest. It cannot be denied that Indonesia's economic relations are predominantly with the West and Japan. In view of the importance of economic interactions and economic co-operation for Indonesia's national development, it has occasionally made some foreign policy compromises. Overall, however, and despite such intensive relations with the West and Japan for the past 15 years or so, Indonesia more or less maintains an active and independent posture. While the national leadership under President Soeharto is pragmatic in the implementation of policies, its

foreign policy outlook remains heavily influenced by nationalist sentiments and the experiences during the struggle for independence.

The implementation of Indonesia's foreign policy under President Soeharto is diametrically opposite that of President Soekarno's high-profile and revolutionary posture. This, to a large extent, reflects the difference in personality between the two presidents.

Soeharto's foreign policy is seen as being sub-ordinated to Indonesia's national development efforts. Some critics of Soeharto's low profile would like to see a more active, even assertive, Indonesian role in many international fora, such as the non-aligned movement and the North-South Dialogue.

The foreign policy initiatives of President Soeharto have been confined largely to the immediate region. A major goal has been the improvement of relations with Indonesia's neighbours by terminating *konfrontasi Malaysia* and the signing of agreements on land and sea borders with most of Indonesia's neighbours (except Vietnam and Australia). The second major foreign policy initiative has been to engage Indonesia in a regional structure, ASEAN, in order to regain the confidence of its neighbours. The stability of the immediate region is regarded as a prerequisite for the success of Indonesia's national development efforts.

ASEAN has become the cornerstone of Indonesia's foreign policy, and the success of ASEAN is seen by many observers as resulting from Indonesia's low-profile within that grouping. In spite of its disproportionate size relative to other ASEAN countries, Indonesia, thus far, has *not* utilised its potentially greater weight in many respects. Given Indonesia's progress in national economic development, it is appropriate to expect that Indonesia will cease to adopt a low profile in its foreign policy. A more active and assertive role, indeed, may be more appropriate for Indonesia because of its potential as a regional power in East Asia.

It goes without saying that the incorporation of East Timor into Indonesia is not a reflection of a new Indonesian posture. In fact, the incorporation of East Timor was forced on Indonesia as a result of internal developments in Portugal rather than being based on a deliberate Indonesian initiative.

Recent initiatives, such as improving relations with the Soviet Union and the Eastern European countries, have been justified on the basis of a more "balanced" implementation of Indonesia's active and independent policy. The main objective here is exploring for new markets and opportunities for economic co-operation. No drastic change in Indonesia's foreign policy posture is to be expected as a result of these new approaches since relations with the socialist bloc have been minimal.

Another issue of current interest is the possible effects of generational change in Indonesia's leadership on the country's foreign outlook. Observations suggest that the future leadership, both from the armed forces as well as civilians, does share essentially the same attitudes. On the one hand, will they feel compelled to show the nationalistic tradition of Indonesia's foreign policy, on the other hand they will become more internationally-minded. The greater professionalism and better education of the coming leadership may make them even more pragmatic and less ideological than the present leadership. There are immediate implications from this attitudinal evolution:

a. the future leadership's commitment to ASEAN may not be as high as that of the present leadership which regards ASEAN as its baby. The future leadership will ask for concrete results and benefits from continued involvement in this regional structure;

b. if Indonesia's future economic performance declines relatively to the 1970s, the future leadership may turn more inward. It may want to allocate less resources to foreign policy initiatives as well as to improving the country's military capabilities, even though the external environment may have changed;

c. inspite of the fact that the threat assessments by the younger generation are not likely to differ from the present, there seems to be support for an improved military capability to respond adequately to a possible *conventionally* external military threat in the distant future.

Overall, however, no drastic changes in the leadership's foreign policy outlook are likely to take place. The PRC and the Soviet Union will both still be seen as a potential threat. Japan's defence build up, as it currently is designed, is not seen as alarming, despite some misgivings of a possible extension of Japan's naval capabilities into Southeast Asian waters.

The attitude of the new generation toward the US is more ambivalent. On the one hand they recognise the importance of the US presence for the stability of Southeast Asia as well as the US role as a partner in Indonesia's economic development. On the other hand, the US, as a superpower, has always created an uneasy feeling among Indonesian leaders.

CONCLUSIONS

The present Indonesian leadership recognises the many challenges to be faced by the country in the future, not only in the economic field, but in the political, social and cultural fields as well. Economic development continues to receive the leadership's priority attention. President Soeharto has shown the

ability to overcome difficult economic situations by taking painful, but necessary policy measures. The implementation of those policies has become less effective over time, perhaps because of strong resistance by certain interest groups or by the bureaucracy itself. The 1970s saw a remarkable improvement in the social infrastructure, especially in education and health. This was made possible by the oil boom, and much effort will be required to continue to finance further achievements in these fields.

Political development has been seriously promoted by the government, largely as a means of guaranteeing future national stability. The government's position itself has been strengthened considerably and now it can afford to take a more relaxed and flexible attitude toward the country's political development process. The country's political infrastructure essentially has been established by now. President Soeharto and the 1945 generation sought to bequeath a national system based on Pancasila and the successful restructuring of the country's formal political system during the past 15 years. The political system which evolved during the New Order is now being tested with the gradual change in national leadership already taking place in the many fields of life, within the armed forces, the bureaucracy, Golkar and the political parties as well as mass organisations.

Whenever President Soeharto decides to retire from office, a succession problem with serious political ramifications will not arise because the present coalition that supports President Soeharto has become sufficiently established to be in control of the transition.

Indonesia's Economic Prospects in the Post-Oil Era

Anwar NASUTION

INTRODUCTION

A reduction in the growth rate of Indonesia's economy from levels prevailing in the 1970s seems inevitable during the present Fourth Five Year Development Plan *(Pelita IV)*. There are several reasons for this quite pessimistic view. First, because it will take time to raise domestic savings and to expand non-oil exports in order to compensate for the decline in oil revenue and in foreign aid and loans. Secondly, the US dollar is likely to remain strong in the near future, while the real interest rate is likely to stay at a high level. At the same time, it is not an easy task to remove established trade barriers. Thirdly, it will also take time for the Indonesian economy to readjust itself to recent changes in the basic macro-economic policies of the government as well as to recent external events.

Since the second half of 1983 the government has changed its macro-economic policies in the following areas. Along with the March 30, 1983 devaluation, Bank Indonesia, the Central Bank, has reduced the degree of its intervention in the foreign exchange market. Since then, Bank Indonesia has allowed the rupiah to float more freely in relation to its standard basket of currencies. Secondly, on June 1 of the same year, Bank Indonesia liberalised the state-owned banking system. As a result, the interest rate has risen dramatically and since then it has stayed at a high level. Thirdly, a new tax system was passed into law on December 31, 1983; two out of the three new tax laws were put into effect on January 1, 1984. Some more changes are expected to

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Table I

INDONESIA: GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN AT CONSTANT 1973, MARKET PRICES AND THE RATES OF GROWTH IN SELECTED YEARS (Rp billion)

								Annual rate of growth (%)					
	1968	1973	1978	1980	1981	1982	1983	1968/73	1973/78	1978-83	1981	1982	1983
1. Agriculture	2,203.4	2,710.0	3,114.8	3,424.9	3,593.5	3,669.8	3,843.6	4.23	2.96	4.17	4.92	2.17	4.79
a. Farm food crops	1,367.5	1,573.0	1,815.8	2,073.4	2,261.2	2,294.4	2,412.3	2.84	3.14	5.61	9.06	1.47	5.14
b. Estate crops	429.6	475.0	597.7	649.3	673.3	744.5	772.1	2.03	4.70	5.25	3.70	10.57	3.71
c. Livestock products	141.3	173.0	184.2	212.4	219.8	230.4	241.2	4.13	1.26	5.54	3.48	4.82	4.69
d. Fishery	121.9	134.0	165.5	182.2	193.5	204.1	216.8	1.91	4.31	5.55	6.20	5.48	6.22
e. Forestry	143.1	335.0	351.6	307.6	245.7	196.4	203.2	19.93	- 0.19	-10.39	-20.12	-20.07	3.46
2. Mining and quarrying	371.7	831.0	1,048.8	1,034.6	1,069.1	939.8	956.5	17.46	4.77	- 1.83	3.33	-12.09	1.78
3. Manufacturing	349.1	650.0	1,235.6	1,704.6	1,877.8	1,900.7	1,942.5	13.24	13.71	9.47	10.16	1.22	2.20
4. Construction	87.1	262.0	528.9	639.3	720.2	957.8	804.5	24.64	15.08	8.75	12.63	5.22	6.16
5. Transport & Communications	152.1	257.0	514.2	609.4	676.9	716.6	752.5	11.06	14.88	7.91	11.08	5.86	5.01
6. Others	1,316.3	2,043.4	3,104.2	3,756.4	4,117.1	4,340.7	4,540.6	9.19	8.72	7.90	9.60	5.43	4.61
a. Trade, hotels, etc.	669.9	1,118.0	1,530.2	1,851.9	2,042.6	2,158.8	2,240.2	10.79	6.48	7.92	10.30	5.69	3.77
b. Public administration and defense	296.8	405.0	767.9	971.7	1,075.8	1,114.5	1,176.2	6.41	13.65	8.90	10.71	3.60	5.54
c. Others	349.6	520.4	806.0	932.8	998.7	1,067.4	1,124.2	8.28	9.14	6.88	7.06	6.86	5.32
Gross Domestic Products	4,479.7	6,753.4	9,566.5	11,169.2	12,054.6	12,325.4	12,842.2	8.56	7.21	6.07	7.93	2.23	4.19

Source: Central Bureau of Statistics, *National Income of Indonesia*, various issues.

come shortly. A new wealth tax law and a set of industrial and trade policies are being drawn up by the government.

Those changes are intended to create a sound and healthier climate in the post-oil era and to allocate economic resources more efficiently in the long run. In the short run, however, reallocation creates uncertainties and even hardships for some. Because of a decrease in the availability of economic resources and the process of structural adjustments, we expect a slower economic growth, at least, in the near future. Recent sectoral growth of Indonesia's GDP is shown in Table 1.

The organisation of this paper is as follows. An analysis of the State Budget of the 1985/1986 fiscal year is presented in the next section. A review of monetary policies follows thereafter and then concluded by a review of the balance of payments.

THE STATE BUDGET FOR 1985/1986

The State Budget for the 1985/1986 fiscal year (Table 2) seems to be purposely designed to stimulate the domestic economy, by boosting aggregate demand for domestically produced goods and services. This is accomplished by using a larger proportion of government oil revenues to finance the expansion of its routine spending as well as by enlargement of the budget spending for labour intensive development projects. The same structure of the budget will increase the money supply as well, since the government uses more of its foreign exchange revenues to finance its rupiah expenditures.

For the first time in recent years, the routine budget in the next fiscal year will be higher than the budget for development expenditures. Most of the increase in routine spending is in personnel expenditure. Starting from April 1985, basic salaries of civil servants and military personnel will be increased by an average of 20 per cent to compensate for the real decline in income due to inflation since the last adjustment two years ago. At the same time, public expenditures in labour intensive activities, such as rural infrastructure and social services, will continue to expand. The increase in civil servants' salaries and expansion of labour intensive development projects are expected to increase the demand for wage goods and other domestically produced goods and services, such as cement, timber, and other construction materials. In turn, expansion in the aggregate demand and money supply may contribute to reviving the present stagnant manufacturing sector.

Government receipts from corporate tax on oil and from foreign aid and loans are transfers from foreigners. Oil revenues collected from domestically

Table 2

CENTRAL GOVERNMENT BUDGET IN SELECTED YEAR
(Rp billion)

Revenues	1969/70 Actual	1974/75 Actual	1979/80 Actual	1984/85 Budget	1985/86 Budget
DOMESTIC REVENUE	243.7	1,753.7	6,696.8	16,149.4	18,677.9
Oil Corporation Tax.	48.3	973.1	4,259.6	10,366.5	11,159.7
Non-Oil Revenue	195.4	780.6	2,437.2	5,782.9	7,518.2
1. Personal Income Tax } Income Tax[1]	12.1	43.3	148.0	-	-
2. Corporation Tax	15.6	91.2	297.0	2,451.1	3,074.0
3. Withholding Tax	15.3	83.3	291.0	-	-
4. Tax on divident royalty and interest rate	-	-	-	-	-
5. Sales Tax } VAT and Sales Tax on Luxury Goods[1]	15.1	84.9	192.0	-	-
6. Sales Tax on Import	15.9	68.9	137.0	958.2	1,666.4
7. Import duties	57.7	160.6	317.0	681.4	717.1
8. Prices	32.1	74.4	326.0	727.5	963.3
9. Export Taxes	7.4	70.3	389.0	123.6	101.7
10. Land Tax (Ipeda)	-	28.0	249.2	150.0	167.4
11. Others	21.0	9.1	72.0	75.4	96.4
12. Non-tax Receipt	3.2	66.6	19.0	615.0	731.9
DEVELOPMENT REVENUE	91.1	232.0	1,381	4,411.0	4,368.1
1. Development Aid	65.8	36.1	65	39.5	70.9
2. Project Aid	25.3	195.9	1,316	4,371.5	4,297.2
TOTAL REVENUE (A + B)	334.8	1,985.7	8,078	20,560.4	23,046.0
OFFICIAL EXPORT PRICE OF MINAS CRUDE OIL (US $/ BARREL)	1.67[2)]	12.6[3)]	21.12[4)]	29.53[5)]	28.51[5)]
AS SHARE OF GDP (A)					
Domestic Revenue	8.9	26.0	20.9	17.9[2)]	
Domestic Revenue Excluding Oil	7.2	11.6	7.6	6.4[2)]	
Oil Corporation Tax	1.7	14.4	13.3	11.5[2)]	
Expenditures	11.4	27.1	25.2	22.8[2)]	
Deficit	2.5	1.1	4.3	4.8[2)]	

Expenditures	1969/70 Actual	1974/75 Actual	1979/80 Actual	1984/85 Budget	1985/86 Budget
A. ROUTINE EXPENDITURES	216,544	1,016	4,062	10,100.7	12,399.0
1. Personnel Expenditures	103,840	420	1,420	3,189.3	4,117.3
Rice Allowances	28,852	59	180	415.7	482.5
Salary and Pension	56,432	302	1,054	2,307.9	3,115.8
Personnel Material Expenditures	10,730	24	110	286.6	313.3
Other Domestic Material Expenditures	3,758	25	47	109.9	116.6
External Material Expenditures	4,068	10	29	79.4	89.1
2. Material Expenditures	50,295	175	569	1,263.9	1,529.9
Domestic Material Expenditures	42,402	150	540	1,207.8	1,451.8
External Material Expenditures	7,893	17	29	56.1	78.1
3. Subsidies to Regions	44,121	202	670	1,784.6	2,590.4
Personnel Expenditures				1,581.4	2,349.0
Nonpersonnel Expenditures				203.2	241.4
4. Debt Repayment	14,436	74	684	2,686.1	3,559.1
Internal Debt	1,740	7	36	30.0	30.0
External Debt	12,696	67	648	2,656.1	1,529.1
5. Other Expenditures	3,852	145	719	1,177.0	602.3
B. DEVELOPMENT EXPENDITURES	118.127	962	4,014	10,459.3	10,647.0
Departments/Institutions	75,474	222	1,304	3,129.8	3,249.1
Armed Forces	4,264		176	380.2	395.2
Rural Developments (Ipeda)	-	28	71	180.6	167.4
Inpres Projects	-	25	249	1,357.4	1,467.3
Government Capital Participation	-	91	253	359.6	255.6
Others	38,389	596	1,961	5,081.7	5,112.4
TOTAL EXPENDITURES	334,671	1,978	8,076	20,560.0	23,046.0

Notes: 1. The new tax laws effective since January 1, 1984;
2. As of January 1969;
3. As of July 1974;
4. As of July 1979;
5. Estimated based on 4,5% growth rate of real GDP and 8,8% inflation rate both in 1984.

Source: Bank Indonesia, *Indonesian Financial Statistics*, various issues

Table 3

QUARTERLY INDEX OF MANUFACTURING PRODUCTION 1981-1984
(Quarterly Average 1975: 188)

ISIC	Description	Annual 1981	Annual 1982	1983 I	1983 II	1983 III	1983 IV	1984 I	1984 II
Consumer Goods									
314828	Clove cigarettes	179	186	175	197	288	214	285	231
314838	Cigarettes (white)	124	115	114	122	118	127	118	118
32111	Yarn and thread	126	121	117	113	111	117	122	127
32112	Wearing	138	132	118	118	118	129	125	125
32114	Batik	99	118	184	182	118	186	122	122
32138	Knitting	89	81	77	82	83	84	84	178
32488	Footwear	123	124	124	125	126	127	126	126
Intermediate Goods									
33113	Plywood	478	424	446	439	429	439	411	374
34111	Paper products	152	152	137	154	145	189	186	182
35118	Basic chemical	127	138	132	123	137	136	141	159
35128	Fertilizer	492	496	554	564	571	552	631	788
35218	Paint, etc.	159	168	132	148	151	156	161	165
35232	Matches	189	238	324	385	272	265	388	386
35518	Tyres and Tubes	381	294	385	311	319	267	313	385
36218	Glass products	257	217	223	223	223	241	242	242
36318	Cement	395	419	415	451	475	581	484	442
37188	Iron and Steel	1248	978	1127	1119	1117	1223	1232	1123
Capital Goods									
38138	Structural metal products	188	196	288	195	285	285	219	288
38312	Dry cell battery	231	267	341	343	285	343	388	341
38328	Electronics	348	333	338	378	378	325	319	316
38438	Motor vehicles	255	227	286	199	225	168	177	153
38448	Motor cycles	161	187	197	111	183	111	94	115
General Index		213	214	216	221	224	225	239	234

Source: Biro Pusat Statistik, *Monthly Statistical Bulletin,* December 1984.

Table 4

SELECTED AGRICULTURAL PRODUCTION, 1973-1983
(Thousands of tons)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Paddy 1)	28.891	29.376	29.281	38.478	38.531	33.782	34.369	38.775	42.857	43.917	46.879
Rice	(14.687)	(15.276)	(15.185)	(15.876)	(15.876)	(17.525)	(17.872)	(28.163)	(22.286)	(22.837)	(23.961)
Corn	3.698	3.811	2.983	2.572	3.143	4.829	3.686	3.991	4.589	3.235	5.895
Cassava roots	11.186	13.831	12.546	12.191	12.488	12.982	13.751	13.726	13.381	12.988	11.651
Sweet potatoes	2.387	2.469	2.433	2.381	2.468	2.883	2.194	2.879	2.894	1.676	2.844
Ground nuts	298	387	388	341	489	446	424	478	475	437	469
Soya beans	541	589	598	522	523	617	688	653	784	521	568
Rubber	845	817	782	856	838	884	898	1.882	1.846	988	1.231
- Smallholder	(559)	(571)	(536)	(618)	(584)	(612)	(616)	(785)	(748)	(586)	(918)
- Estate	(246)	(246)	(246)	(246)	(254)	(272)	(282)	(297)	(386)	(314)	(321)
Coffee	158	149	168	194	197	223	228	285	295	281	382
- Smallholder	(148)	(132)	(144)	(178)	(181)	(286)	(289)	(266)	(276)	(262)	(285)
- Estate	(18)	(17)	(16)	(16)	(16)	(17)	(19)	(19)	(19)	(19)	(17)
Tea	67	65	78	73	76	91	125	186	118	94	113
- Smallholder	(14)	(14)	(14)	(13)	(14)	(17)	(17)	(21)	(22)	(17)	(25)
- Estate	(53)	(51)	(56)	(68)	(62)	(74)	(188)	(85)	(88)	(77)	(88)
Sugar	1.889	1.237	1.227	1.321	1.438	1.516	1.681	183	1.788	1.627	1.587
- Smallholder	(199)	(258)	(223)	(267)	(352)	(485)	(498)	(749)	(1.364)	(1.373)	(1.339)
- Estate	(818)	(987)	(1.884)	(1.854)	(1.886)	(1.831)	(1.183)	(1.862)	(336)	(254)	(248)
Copra	1.237	1.341	1.375	1.532	1.518	1.575	1.582	1.759	1.812	1.718	1.683
Smallholder's Tobacco	69	69	74	78	72	68	73	181	183	97	111
Pain Oil	289	348	397	431	485	532	642	781	748	884	987
Logs 2)	25.888	23.288	16.296	21.427	22.939	31.894	26.427	21.748	15.954	9.348	18.513

Notes: 1) Dry Stalk paddy
conversion factor dry stalk paddy to rice is 52%.
2) in thousand m3

Source: Bank Indonesia, *Indonesian Financial Statistics*, vol. XVII no. 11-12, November -December 1984.

based foreign oil companies, for example, are not part of private domestic resources that are transferred to public use. They are part of foreign income that would otherwise have been repatriated abroad. When the government finances the deficit in the domestic part of its budget from the surplus in the foreign component of the budget in order to maintain an overall balance, this will add directly to the domestic aggregate demand. At the same time the money supply increases because of the monetisation of the foreign exchange receipts required to finance its rupiah expenditures.

Expansion of aggregate demand and the money supply will also come about when the government disburses its undisbursed development budget from the last three fiscal years (SIAP). The undisbursed funds from the past budgets (approximately Rp3.5 trillions) are now in government accounts at Bank Indonesia. Spending of these funds will increase aggregate demand, base money and money supply as well.

The combined impact of the expansion in aggregate demand and money supply on inflation, is likely to be small during the next fiscal year. This is because the unused capacity of the manufacturing sector that produces wage goods and construction materials is so large, due to slack of demand. The quarterly index of manufacturing production in Table 3 shows that the production of important substitution industries has saturated the market in the past three years. Production of rice and sugar and other food crops (Table 4) have also been exceptionally high in the last three consecutive years, due to the favourable climatic conditions. Stocks are mounting and prices, in some regions, are declining below the government's floor price. As a result, the farmers' income have not gained much from the increase in yields of their harvest.

Distributional Aspects of the 1985/1986 Budget

Expansion in demand for wage goods and in public expenditures for labour intensive programmes will directly improve the position of those sectors of the population which have lagged behind and whose standard of living has remained very low. Public services, such as rural infrastructure, basic education, health services and other social programmes, are particularly important to these groups. On the revenue side of the budget, however, the picture is quite different, and may work to neutralise those benefits. Since most of the increase in non-oil domestic revenue is expected from taxes on goods and services and taxes on international trade, the share of the tax burden borne by the poorer part of the population will be increased.

Revenue from the value added tax (VAT) and tax on luxury goods in the next fiscal year is expected to increase by 73.9 per cent; domestic excise taxes

by 32.4 per cent, and other taxes by 27.9 per cent. About one-third of the VAT will be collected from VAT on domestically consumed oil derivatives. The main sources of domestic excise taxes are cigarettes, particularly clove cigarettes *(kretek)*, sugar, alcohol and beverages. Aside from paying excises, the last three commodities are also subject to VAT.

Data from Consumer Expenditures *(Susenas = National Social Economic Survey)* show that among the lower income groups, the share of consumer expenditures on those three items is quite large. The coefficient of demand elasticity with respect to the price of those goods is also inelastic. As a result, the increase in the taxation on goods and services ~~and on~~ international trade is not only regressive but will also reduce the welfare of those population due to increasing deadweight loss because of those indirect taxes.

Another source of potential collision between the State Budget and the equity objective as stated in the Guidelines of State Policy *(GBHN)* comes from the centralisation of government procurement as directed by the Presidential Decisions *(Keppres)* Nr. 10 of 1980 and Nr. 29 of 1984. Centralisation of government procurement may save some public money.[1] Nevertheless, this eliminates access of medium and small private enterprises from outside Jakarta and other provincial capitals, to government procurements. Centralisation also creates new bottlenecks that reduce the speed of disbursement of the government budget.

Whether the increase in basic salaries of civil servants and military personnel, which among others are financed by regressive taxes, will lead to improvement in the quality of public services to the poor remains to be seen.

Uncertain Government Revenues

There are at least two sources of uncertainty in government revenues for the next fiscal year. The first source is related to external developments, particularly the recent developments in the international oil market. This creates an uncertainty about the volume of Indonesia's oil exports as well as its price. The second is related to revenue collection under the new tax system.

Uncertain Oil Revenues

Since the first "oil boom" in 1973/1974, Indonesia's economy has been too dependent on oil. About 60 per cent to two-thirds of the domestic government revenues and 80 per cent of Indonesia's export value has come from oil.

[1]The state-owned enterprises (including state-owned banks) are also subject to centralisation of government procurement. This in turn, reduces their ability to compete with the private sector.

The second "oil shock" in 1979 which was followed by an international economic recession in 1980-1982, has turned the "rosy" picture in the world oil market to "gray." Continued increases in the price of oil in the seventies have forced consumers to conserve their energy consumption and have pushed the development of alternative sources of energy. At the same time, high prices have created incentives for producers, OPEC and non-OPEC alike, to increase oil production, including the exploitation of marginal deposits. Substantial differential prices between heavy and light crudes have created incentives for technological progress in oil refining that has led to promotion of the production of gasoline and other derivatives from heavier crude. This has resulted in the breakdown of the price differential against Indonesia's light crude.

The above developments in the international market have led to a reduction in the production quota as well as in the price of oil. At the same time, the volume of oil traded in the spot market is increasing. All of these factors have changed the strategic position of oil. In the past, consumers bought oil on the basis of long-term contracts at official prices, and stored large quantities as a precautionary measure against shortages. Today, as the role of the spot market is increasing, where oil can be purchased in large quantities under official prices, oil companies, wholesalers and consumers alike have tended to reduce their inventories.

As stated before, the above developments have caused uncertainties as to whether or not Indonesia can reach its production quota, as set by OPEC at 1,189 thousands barrels of crude oil per day, and at the same time maintain its official selling price at US$28.53 per barrel (Minas crude).

Uncertain Tax Revenues

The new tax system consists of three Acts, namely, Act Nr. 6 on Tax Administrative Procedures; Act Nr. 7 on Income Tax; and Act Nr. 8 on Value Added Tax (VAT). All of these laws were passed on December 31, 1983. The first two Acts came into effect on January 1, 1984. The Act on VAT will be implemented starting from April 1, 1985. The new system is much simpler than the old one and is based on the principle of self assessment and is intended to improve fiscal and economic efficiency.

The new tax system is really new for both tax administrators as well as for the taxpayers. It will take time for all of them to learn the new system and comply to it. In the past, tax revenues were collected based on a target system, as with a traditional "tax farming" system. Under this system, each year, when the government prepares its forthcoming budget, it sets a target for tax revenues to be collected by the Directorate General of Taxes. The target was

allocated from the top down to lower tax administrative units and was not necessarily related to the ability of the taxpayers to pay, or to the economic conditions of particular regions. Local tax collectors, then, assessed tax payments through a process of negotiations with taxpayers. In 1983, the number of taxpayers was only around 600-700 thousands out of a population of 162 millions.

The VAT replaces most of the sales and excise taxes. In theory, VAT improves both fiscal and economic efficiency since it takes only a portion of the value added at each stage of production. The VAT contains built-in or self policing measures since false accounting of sales by under-invoicing should be objected by the buyers whose tax liability would be increased by such an action.

The new income tax law replaces the old corporation and personal income tax laws. The new law is much simpler and easier to enforce than the old ones. Exemptions are raised to more realistic levels, namely, Rp960 thousand for each taxpayer and an additional Rp480 thousand for a married taxpayer, Rp960 thousand for a working spouse and Rp480 thousand for each child. The number of dependents, however, aside from one spouse, is restricted to three. Under the new income tax law, there are only three tax rates. Taxable income up to Rp10 million is subject to a 15 per cent rate, the income bracket between Rp10 to Rp50 millions is taxed at 25 per cent, and above Rp50 millions at 35 per cent. At these rates, tax evasion and corruption will not be attractive compared to the cost of being caught, prosecuted, and fined.

Under the old tax system, historical tax elasticity in Indonesia was around unity. This meant that the rate of growth of tax revenue was more or less equivalent to the rate of growth in nominal GDP. If, for example, the inflation rate and the real rate of growth in GDP were 10 and 5 per cent respectively, then the rate of growth in tax revenues would be around 15 per cent. However, the budget predicts an increase of 25 per cent in the income tax for the next fiscal year. The other 10 per cent increase, must then be expected from improvements in the tax administration. About one-third of the revenue from VAT is expected to be derived from VAT on domestic consumption of oil related products. Its collection is much easier then the collection of VAT on non-oil commodities since the former is collected from PN Pertamina, the state oil company.

With the poor data base on taxpayers, inefficient tax administration, underdeveloped legal and accounting system, and a general reluctance of people to pay taxes since they were not being used to in the past, the revenue targets in the next fiscal year seem to be too high. Even though the number of re-

gistered taxpayers has increased to around 1 million recently, due to the tax pardon facility, many of these are civil servants for whom registration is compulsory. Those factors help explain why the Indonesian tax system has been so inflexible in raising the needed government revenues to finance expenditures.

The present (old) wealth tax cover a broad range of tax objects, ranging from dwellings to tape recorders, refrigerators, paintings, and jewelry. Because of its "greediness," it seems to be difficult to administer and too easily avoided or evaded. The tax administration does not have sufficient personnel to search every household and adequately assess tax liability. A replacement for the present wealth tax will be proposed to Parliament in the near future.

Government Expenditures

Aside from its expansionary effects on the domestic aggregate demand and money supply, there are some other interesting features of the next year State Budget. Foreign debt repayments in the 1985/1986 fiscal year are expected to be higher than before. The allocated budget for foreign debt repayment in the coming fiscal year is expected to reach 81 per cent of the prospective government new capital inflow, or about 47 per cent of its budgeted domestic non-oil revenues.

The budget also reflects the changes in government pricing policies, particularly on some basic commodities such as oil products, fertilizers, rice and sugar. Even though the government still subsidises the consumption of oil in the domestic market, the domestic prices of some oil products are much higher than the same products in the world market. The price differential is partly due to the cross subsidising and partly to inefficiencies in PN Pertamina.

Subsidies on fertilizers are expected to decline by 21.6 per cent compared to the figure for the 1984/1985 budget. The official selling price of urea, for example, is expected to increase by Rp10 per kilogram. At the same time, the floor price of paddy is expected to increase by the same amount. Because the rate of growth in the price of fertilizers is much faster than that of paddy, the barter terms of trade between the two commodities will be declining against paddy. The message of this is clear, that is, it will reduce incentives for farmers to grow rice. By doing so, the government seems to be deliberately encouraging farmers to reduce their costs of paddy production, to increase the quality of rice processing, or to grow crops other than paddy.

Exceptionally high rice production in the last three consecutive years have also created problems for the National Logistic Agency *(Bulog)*. Rice production in 1984 was 25.5 million tons compared to 23.9 million tons in 1983 and

23.2 million tons in 1982. Production in 1985 is expected to be even higher than last year.

Financial costs for *Bulog* to hold an ever increasing stock of rice and sugar have become higher and higher. As of February 1985, *Bulog* held 2.5 million tons of milled rice equivalent. It can only export rice and sugar at a loss since domestic costs of production are much higher than international prices. To reduce its burden *Bulog* has reduced its imports and set higher quality standards for its domestic procurements of rice and sugar.

Reduction in government capital participation or expansion of government equity at state owned enterprises is, hopefully, a first step toward privatisation of the economy. The reduction in the availability of economic resources has forced the government to concentrate its investment outlays for the provision of the economic and social infrastructures rather than for expansion in the state owned enterprises to produce private goods.

MONETARY POLICY

The second ongoing structural change in Indonesia at the moment is in the reform of its banking system which is the core of her financial system. The centre piece of the banking system is the state-owned banking system. About 80 per cent of the assets and credit of the banking system is owned and provided by the state-owned banks including Bank Indonesia. The network of branch offices is also dominated by the seven state-owned banks.

Prior to June 1, 1983, the financial system had been repressed at least for a decade, particularly since April, 1974. To control the increase in money supply due to continued monetisation of oil money by the government, Bank Indonesia set credit ceilings for each bank. At the same time, it allocated credits by a selective system with subsidised interest rates. Aside from giving credits directly to economic units, Bank Indonesia also provided liquidity credits for financing in a broad range of priority sectors, and assumed some of the default risks of the credits. Since most of the priority credits were channelled by the state-owned banks, the credit system became one of the means to protect state-owned banks from competition with private banks.

The banking liberalisation of June 1, 1983 turned these monetary policies upside down. State-owned banks were forced to mobilise their own funds before they could extend credits and make investments. Liquidity credits from Bank Indonesia were no longer available, except for a few rural credit programmes. Each bank was thus free to determine its own deposit and lending rates.

INDONESIA: SOME MACRO ECONOMIC INDICATORS FOR SELECTED YEARS

End of Period	Money Supply (Rp billion)	G N P (Rp billion)	Percentage Change in Money Supply	Real G D P	Price Level	Income Velocity of Money 1)	Market Exchange Rate (Rp/US$)	Interest Rate (One Year Deposit Rate at State Banks)
1978	241	3,298	34	-	8.9	-	382	24%
1975	1,258	12,887	33	-	19.7	11.8	428.88 2)	15%
1988	4,995	43,435	48	-	16.8	9.9	633.78 2)	9%
1983	-	68,179	6	4.2	11.5	18.8	-	-
March	7,379	-	3.6	-	4.1	-	787.35	16% 5)
June	7,585	-	1.7	-	4.5	-	977.25	18,25%
Sept.	7,716	-	2.8	-	1.6	-	989.12	18.25%
Dec.	7,569	-	-1.9	-	8.9	-	994.12	18.25%
1984	-	98,288 6)	11	4.5 6)	8.8	11.5 6)	-	-
March	8,855	-	6.4	-	5.4	-	1,881.58	18.25%
June	8,183	-	1.6	-	2.3	-	1,816.88	18.25%
Sept.	7,961	-	-2.7	-	8.1	-	1,866.88	18.25%
Dec.	8,319	-	4.5	-	1.1	-	1,876.88	18.25%

Sources: Bank Indonesia, *Weekly Report and Indonesia Financial Statistics*, various issues; Central Bureau of Statistics, *National Income of Indonesia*, various issues.

Note:

1. Income Velocity of Money (v) calculated as $V = Yt/\frac{1}{2}(Mt-1 + Mt)$.
2. In August 1971 Rupiah was devalued to Rp 415/US$.
3. On November 15, 1978 Rupiah was devalued to Rp 625/US$ and since the same time its value has been peged to a basket of currencies.
4. On March 30, 1983 Rupiah was devalued to Rp 978/US$.
5. Since June 1, 1983 banking system has been allowed to determined its own deposits rate as well as lending rate for non priority sectors.
6. Estimate based on 4.5% real growth rate of GDP.

The reform has changed the role of Bank Indonesia as well. Its activities now reflect more of the true operation of a central bank. It has significantly reduced its role as a provider of credits directly to economic units, particularly credits for state-owned enterprises and quasi government institutions such as *Bulog*. It has also resulted in Bank Indonesia refraining from intervention in the day to day operations of state-owned banks.

The results of the banking reform are clearly evident in Table 5. The rates of growth in money supply and in the price level fell sharply, while the income velocity of money and interest rates suddenly increased. The increase in interest rates is also related to the high international interest rate and the appreciation of the US dollar. Had the interest rate remained low, it would have caused a capital outflow. The average lending rate at state-owned banks jumped from a 15 per cent level in early 1983 to 26 per cent in September 1984, and then declined gradually to the present 24 per cent.

The exceptionally high interest rate in August-September 1984 was partly due to the high capital outflow and the other part was due to Bank Indonesia's policy. Rapid depreciation of the rupiah in July to September of that year triggered people's expectation of a devaluation of that currency, which in turn caused them to change their portfolio from rupiah to foreign exchange. At the same time, Bank Indonesia withdrew its liquidity credit from state-owned banks and sold certificates *(Sertifikat Bank Indonesia* or *SBI)* to reduce the rate of growth in money supply. These, together with higher costs of funds and slower credit repayments from the business sector due to the economic recession, have drained the banks' rupiah liquidity. The liquidity problems have pushed the interbanks lending rate up to 90 per cent in September, 1984. As a temporary measure Bank Indonesia has actually opened its special discount window as an emergency credit facility from early February of that year. However, banks were reluctant to use the discount facility as they wanted to avoid punishment from Bank Indonesia and to prevent loss of confidence from their customers.

To reduce the interest rate to a more reasonable level, in September 1984, Bank Indonesia set the limit for bank borrowing from the interbank market to a maximum of 7.5 per cent of its mobilised funds and at the same time relaxed requirements to use its discount facility. These policies helped reduce the interbank rate to the present average of 12 per cent level which is comparable to the interbank rate in the international money market. Another monetary instrument were introduced last February, namely, a rediscounting facility for commercial papers issued by business firms and banks *(Surat Berharga Pasar Uang* or *SBPU)*. As of now, the facility is quite complicated and Bank Indonesia restricts its purchase to promissory notes that have been endorsed by banks and NBFIs.

The sharp increase in the interest rate has widely affected the business sector since it was used in the past to enjoying a low interest rate as well as a small capital requirement for obtaining credits from state-owned banks. The increase in the interest rate has directly affected the feasibility of business ventures. It sharply increased the interest burden for inventory and for companies which had a high debt equity ratio. All of these liquidity problems must have some impact on the level of business investments and their future rate of growth.

At least in the short run, the interest rate is expected to remain high in Indonesia. There is no sign yet for a let up of "crowding out" in the international financial market. The same holds true for the appreciation of the US dollar. At home, a reduction in exports and capital inflows will reduce the foreign component of Indonesia's monetary base, the rate of growth in money supply, and the supply of banks' loanable funds. It also will take time for state-owned banks to readjust themselves to the present competitive era in order to reduce their administrative costs as well as the risks involved in extending credits. These two costs and the costs of funds are the components of the bank lending rate.

It will also take time for the state-owned banks to readjust internally in order to mobilise higher domestic savings. Aside from offering high interest rates for savings deposits, banks must also reach the savers and improve the quality of their services. For those who are ignorant about the advantages, purposes, and functions of banks and the banking system, banks must do some campaigning.

THE BALANCE OF PAYMENTS

Indonesia's balance of payments reached its peak in the fiscal year of 1981/1982, after the second "oil boom" in 1979 (Table 6). The oil glut and international economic recession of 1980-1982 started to affect Indonesia's economy in 1982. Export revenues from oil and gas have continuously declined since then. On the other hand, exports of non-oil recovered in 1983/1984, thanks to the economic recovery in the industrialised countries. However, the increases in the value of non-oil exports have not made up for the losses in the export value of oil.

On the other hand, imports reached a peak in 1982/1983. The government's decision to rephase its large foreign exchange intensive projects, the unusually good harvests of paddy and sugar since 1983, and a slowdown in some import substitution manufacturing sectors, have contributed to the reduction in imports. Services have remained high even though they have declined from a peak in the fiscal year of 1981/1982.

Table 6

INDONESIA: BALANCE OF PAYMENTS IN SELECTED YEARS
(in millions of US Dollar)

	1969/1970	1974/1975	1977/1978	1980/1981	1981/1982	1982/1983	1983/1984	1984/1985 (est)
I. Goods and Services								
1. Exports fob	+ 1,844	+ 7,186	+ 18,511	+ 22,885	+ 22,994	+ 18,672	+ 19,816	+ 19,779
(Oil and Gas)	(+ 384)	(+ 5,153)	(+ 12,348)	(+ 17,298)	(+ 18,824)	(+ 14,744)	(+ 14,449)	(+ 13,729)
(Non Oil and Gas)	(+ 668)	(+ 2,833)	(+ 6,171)	(+ 5,587)	(+ 4,178)	(+ 3,928)	(+ 5,367)	(+ 6,858)
2. Imports fob	- 1,897	- 5,897	- 18,722	- 14,242	- 17,911	- 18,496	- 16,384	- 15,438
(Oil and Gas)	(- 88)	(- 1,275)	(- 2,672)	(- 3,681)	(- 4,916)	(- 4,365)	(- 3,489)	(- 3,269)
(Non Oil and Gas)	(- 1,889)	(- 3,822)	(- 8,858)	(- 18,561)	(- 12,995)	(- 14,131)	(- 12,815)	(- 12,169)
3. Services	- 448	- 2,227	- 5,591	- 6,512	- 7,873	- 7,215	- 7,663	- 7,587
(Oil and Gas)	(- 284)	(- 1,248)	(- 2,693)	(- 3,816)	(- 4,147)	(- 3,213)	(- 3,589)	(- 3,411)
(Non Oil and Gas)	(- 244)	(- 987)	(- 2,898)	(- 3,496)	(- 3,726)	(- 4,882)	(- 4,874)	(- 4,176)
4. Current Accounts	- 581	- 138	+ 2,198	+ 2,131	- 2,798	- 7,839	- 4,151	- 3,246
(Oil and Gas)	(+ 92)	(+ 2,638)	(+ 6,975)	(+ 18,681)	(+ 9,761)	(+ 7,166)	(+ 7,371)	(+ 7,849)
(Non Oil and Gas)	(- 593)	(- 2,776)	(- 4,777)	(- 8,478)	(- 12,551)	(- 14,285)	(- 11,522)	(- 18,295)
II. SDR	+ 35	-	+ 65	+ 62	-	-	-	-
III. Official Transfer and Capital	+ 371	+ 668	+ 2,698	+ 2,684	+ 3,521	+ 5,811	+ 5,793	+ 4,359
a. Program aid	+ 388	+ 188	+ 239	+ 118	+ 58	+ 21	+ 84	+ 58
b. Project aid and others	+ 63	+ 488	+ 2,451	+ 2,566	+ 3,471	+ 4,998	+ 5,789	+ 4,381
IV. Miscellaneous Capital (net)	+ 27	- 131	- 1,318	- 361	+ 1,148	+ 1,795	+ 1,191	+ 341
V. Dept Payment	+ 31	- 89	- 692	- 651	889	- 926	- 1,818	- 1,589
VI. Total I + V	- 99	- 382	+ 2,943	+ 3,981	+ 1,862	- 1,159	+ 1,823	- 55
VII. Errors and Oraissions	+ 56	- 311	- 1,253	- 1,165	- 2,858	- 2,121	+ 247	+ 698
VIII. Monetary Movements	+ 43	+ 9	- 1,698	- 2,736	+ 988	+ 3,288	- 2,878	- 643

Source: Central Government Budget 1984/1985.

In its recent history, the current account of Indonesia's balance of payments has always been negative, except in the fiscal years of 1979/1980 and 1980/1981. This means that it was only in those two years that the values of exports were above the values of imports and services. Deficit in the current accounts for the fiscal year of 1984/1985 is expected to be reduced to half of the deficit in 1982/1983. Capital inflows financed a total of US$3,246 millions of that deficit but larger debt repayments cancelled out US$1,509 millions of that inflow. Thanks to the conservative policy of the government on foreign borrowings; about 75 per cent of the government foreign borrowings come from official development assistance and from other non-commercial sources. Some of the errors and omissions are non-recorded capital flows. In the last two years, the errors and omissions have been positive, after they had been negative for six consecutive years in a row prior to 1983/1984. This is a good sign since in the last two years capital inflows exceeded capital outflows.

Government borrowings rose from US$2.6 billions in fiscal year 1980/1981 to US$5.7 billions in 1983/1984. Cash loans during the last fiscal year totalled US$1.7 billions and were utilised for financing projects not funded by soft loans or export credits and for strengthening foreign exchange reserves. At the end of the fiscal year, the balance of payments was turned from an adverse US$3.2 billions in 1982/1983 to a positive US$2.07 billions in 1983/1984; and is expected to reach US$0.643 billion by the end of the current 1984/1985 fiscal year.

In his speech to the annual dinner for the banking community in mid-January early this year, the Governor of Bank Indonesia announced that Indonesia's foreign exchange reserves had increased to US$5.751 billions from US$3 billions at the time of last devaluation (March 30, 1983). By the end of December, 1984 foreign exchange banks held US$4.3 billions of reserves, bringing a total of foreign exchange holdings of the banking system to around US$10 billions, or about eight months of gross imports.

As of March 2, 1985, the central exchange rate for the US dollar at Bank Indonesia has reached Rp1.096, a further 13 per cent depreciation against that currency since the 27.5 per cent devaluation on March 30, 1983. Since then, the rupiah has been more "cleanly" pegged to a basket of currencies of Indonesia's trading partners. The currency composition of the basket and their weights are never disclosed by the government. However, the US dollar must carry a significant weight in the basket since when the US dollar appreciates against other currencies, the rupiah also appreciates against them, albeit at a slower rate. By pegging the rupiah to a standard basket of currencies, the variance of Indonesia's real exchange rate is reduced and the impact of external terms of trade on domestic inflation is moderated.

To promote the export of non-oil products, the next immediate agenda for the government is to reshape its industrial and trade policies. To challenge international competition, the economy should be encouraged to exploit Indonesia's comparative advantages. Some of the obstacles for this are the government's protection and licencing system, as well as other government regulations and controls. The business sector must make their contribution as well; to reduce cost, to improve the quality of domestic production, and to penetrate international markets.

Positive signs toward more liberal industrial and trade policies are already being given by the government. The Minister of Transportation has announced his plan to simplify ports handling procedures to reduce harbour costs. The Minister of Finance is planning to simplify customs procedures, to gradually eliminate export subsidies, and to restructure the tariff and other protective systems. Those changes are going to be implemented as early as April 1985, next month. Forces who favour and who desire to expand the present import substitution industries remain strong in the government. The same holds true for pressure from groups of rent seekers from outside the government. But, with the deterioration in the international oil market and in the reduction in the foreign capital inflow, there is no other option than to expand Indonesia's capacity to export products other than oil and natural gas, if the government is really serious to maintain the momentum of economic development.

Development of Financial Instruments: The Indonesian Experience

A.R. SOEHOED

INTRODUCTION

There is undoubtedly an increasing need for capital in the years to come, particularly in the developing countries and the NIC's of the Western Pacific Rim.

With progress achieved in the past decades, industrial development within these countries is now expanding into upstream and basic operations, large extractive industries, and in some countries even into high-technology. The demand for capital for the region will not only increase as a whole, but in many cases may involve very large amounts for single projects with the attendant higher risks involved.

Obviously, to raise these funds, regional integration of capital markets will become a necessity as a means for distributing risks among savers and investors.

Bank financing will play a more important role. Although this integration materialises and bank financing becomes more readily available, there will as yet be instances where this source is not accessible due to various constraints and limitations within various countries, inhibiting the full utilisation of those facilities.

National perceptions and basic policy principles as well as domestic social conditions are some of the factors which hamper the smooth inflow of capital.

Paper presented at the Pacific Economic Co-operation Conference (PECC) Task Force Workshop on Capital Flows, Makaha Hawaii, October 11-12, 1984. A.R. Soehoed is Former Minister of Industry, and Member of the Supreme Advisory Council.

USE OF EXTERNAL CAPITAL

This situation is very much reflected in the ambiguous attitude towards foreign private investment, contrary to political statements which strongly indicate the need for greater capital inflows, including foreign private investment.

There are some valid reasons for this underlying apprehension. Nevertheless there is definitely a genuine desire to create a situation which is sufficiently stable and conducive to attract foreign investment and to gain creditworthiness from financial institutions.

Judging from the growth rates of East and Southeast Asia over the past decade, one gets the impression that somehow these constraints were surmountable in one way or the other.

Indonesia is probably one of the countries where nationalistic aspirations are quite high but at times not very concordant with economic realities. Nevertheless, progress achieved in the past fifteen years has been significant and many of the conflicting situations were successfully by-passed or circumvented by innovative company and capital structures.

After the pre-1965 period of economic chaos, Indonesia has maintained a very conservative and in the eyes of industrialists, a too stringent monetary policy.

Available soft-term loans were utilised only for infrastructure and social development.

To complement bilateral concessionary and other soft loans from international financial institutions, a Foreign Capital Investment Law was enacted in 1967, offering very attractive incentives to foreign investors.

However, although tax-incentives were quite lavish, foreign investments -- even under a joint-venture arrangement -- were barred from access to domestic funds from the state-banks, which handle most of the bank financing in Indonesia.

Foreign direct investments, therefore, have to turn to private national banks or to foreign banks which have their branches in Indonesia. Some joint-ventures have turned to overseas banks through their local representative offices.

Most of these loans are not guarenteed by the Indonesian Government, the only guarentee being the free remittance of repatriating capital, loan payments and dividends. However the proximity of the a bank's representative office to the project, and the knowledge of local conditions also constitute some form of guarantee.

Other guarantees involve a number of bilateral or multilateral arrangements, like the Investment - Guarantee Agreements which Indonesia has signed with a number of countries, and the Convention on the Settlement of Investment Disputes between states and nationals of other states, under the aegis of the World Bank.

Local partners sometimes have to resort to borrowing for their participation from their foreign partner, to be paid off through dividends.

Domestic investments which are new investments and without any foreign equity participation, approved under a Domestic Investment Law, enacted in 1968, enjoy the facilities of the Investment Credit Scheme, whereby state banks are allowed to lend up to 75 per cent of the needed investment capital. In terms of tax-incentives the Domestic Investment Law does not differ very much from the Foreign Capital Investment Law.

With the progressive entry of new foreign and domestic investments, political pressures have compelled the Indonesian Government to reduce somewhat the incentives offered under the original acts and to render greater preferences to domestic enterprises and investments.

In addition to the issuance of priority lists for preferred investments, the Government issues negative lists which spell out those sectors where foreign equity participation is prohibited.

Higher oil prices, encouraging agricultural performance, and continued political stability made Indonesia a very attractive area for new investments, notwithstanding the various hurdles and limitations.

DEVELOPMENT OF FINANCIAL INSTRUMENTS

This situation has led to the creation of a variety of capital structures and financing instruments. This suggests that even under increased economic nationalism in developing countries, foreign banks still can play an important role, probably not so much as provider of loan capital only, but in chanelling capital from source to user and vice-versa, and in the process provide the necessary security.

In the seventies, capitalising on a bullish situation for new investments in Indonesia, two Japanese ventures were able to float shares in the European stock market, underwritten by a Japanese bank, which has an establishment in Switzerland. Some provisions were incorporated in the value of the shares as a sweetener and the exercise turned out to be very successful. This pattern was followed by a number of other ventures which likewise floated shares in Hong Kong as well as in Europe.

In essence these investments are *portfolio investments* channeled through an operating investment company, although portfolio investments in Jakarta do not yet have legal acceptance. The merits of portfolio investment have been discussed on various occasions in Indonesia without any positive conclusion. Some circles are of the opinion that offering of a portion of shares of succesful public or state-owned enterprises at overseas stock markets could channel much needed foreign exchange into the country to finance other operations without losing control over them. For the state enterprises themselves, which are mainly basic industries, these liquid funds could open a venue for forward or backward integration to increase the manufacturing added value in the particular product line. Thus far, however, fear of a decreased control over the state-owned enterprises is still too dominant.

Domestically, the Indonesian Government has already applied financing through *the issuance of bonds,* a.o. for infrastructural projects of a vital nature. These bonds are underwritten by a National Trust Fund.

The preferential treatment rendered to domestic investments has urged foreign investors to invest in these domestic companies through a trustee. This, of course, requires a certain relationship between the investor and the trustee. This system of investing indirectly in a domestic investment project has become more sophisticated over the years. A domestic investor may need production equipment for which some loans are necessary. An overseas investor provides the loans in kind, viz. in plant equipment. While accepting this loan at the same time the borrower signs a *management - agreement* with the lender, which gives the lender the right to manage the plant until the loan has been paid-off in accordance to a certain repayment schedule. After the loan has been paid-off there is still a possibility for a continuation of the management contract, on a straightforward basis, rendering the overseas partner fees instead of dividends.

A slightly tighter type of the structure mentioned above is a so-called *lease-management arrangement,* whereby the lender financed the whole project and the plant becomes property of the owner right away when completed. At the same time the property is leased to the creditor on the basis of an agreed gross-

profit sharing, for a period in which the creditor can be expected to be able to retrieve his full investment including interest and a reasonable return; this period is computed on a mutually agreed loss and profit projection.

The latter pattern is usually applied to projects which can rely on a reasonably captive market. Among others, this arrangement was applied for the establishment of a Satellite Tracking Station for the Indonesian domestic satellite communications system, which has been fully paid-off in seven and a half years. Some hotels have also been financed in this way.

The merit of above mentioned structures is that the domestic investment can have access to domestic as well as overseas loans, while the foreign party obtains a better control of his loan instead of relying on a trustee.

In the midst of the oil boom the Indonesian Government invested directly in a lot of upstream and basic industries to boost industrial development and to strengthen the national industrial structure. Although equity was provided fully by the Government the majority of the loan money usually has to be mobilised from abroad. Payment of this loan was in one of two cases arranged on a *buy-back agreements* of the produce of the plant. It may even be plausible to involve in this buy-back arrangement a third country which is in need of the same product. Banks can be useful intermediaries in this tri-partite arrangement.

In another country within the region there was the case of foreign participation in an extractive operation, where the partners receive their share of the proceeds in kind, with an option for the product to be sold on behalf of the respective partners.

A problem which foreign investors also has to face is the required Indonesianisation process, in which after a certain period of commercial operation the Indonesian partner or partners should have a majority holding over the foreign partner. Since the local partner is often very short in equity and has no access to sources of equity this policy was rather difficult to implement.

Sometimes a non-bank financial institution is requested to take-up the balance of shares to make-up for the Indonesian majority; these shares can later be bought back by the Indonesian partner or other Indonesians, which means some breathing time for the Indonesian side before entering majority position.

Presently, another way-out is to require the particular company to go public by selling a portion of its shares at the stock exchange, for which the company will enjoy some tax-incentive. These shares are guaranteed by a State-owned Trust Company.

Since the primary objective of this stock exchange at present is mainly to achievc a broader ownership base on big operations to accomodate a quite sensitive social political objective of equitable distribution of the gains of development, this objective actually has hampered the stock exchange to become a full-fledged one. Trade remains a primary one and no secondary market has as yet developed.

The Indonesian Government at one time was offered shares by a foreign company, which by contract was required to sell a portion of its shares within a specified period to Indonesians. Since this constitutes rather large amounts in share value, the Indonesian Government was obviously the only potential buyer.

The matter was solved by a purchase of a certain portion of the shares by the Government to be paid by future taxes, which will be waived in exchange for these shares. During the period of payment, which was approximately three to four years the deal was secured by the issuance of promissory notes by the Indonesian Central Bank.

Elsewhere in the region an interesting structure was established by a foreign company required to make provisions for local participation up to majority within a specified period.

The foreign company paid-up its own portion of shares to the amount which would have been the level of equity holding when local majority was to be reached. The portion of shares to be reserved for local participation was also brought in by the foreign company, but as a subordinated loan to the company, which in exchange issued *debentures* for this particular loan.

These debentures are available for local investors to be bought at any time during the specified period, while carrying a fixed annual interest rate; these debentures being convertible into stocks opened up a possibility for local participation up to the required level of holding on a deferred basis.

At the end of the period the company and the foreign investor are free to dispose of an eventual balance of any unsold stock.

A specific problem for foreign investments in the extractive sector in Indoncsia is thc stipulation in the constitution that the nation is the sole owner of natural resources; the Govcrnment is therefore not permitted to grant concessions for extractive opcrations to foreign pcrsons or groups.

This has rcsultcd in the birth of thc *production sharing contract,* now widcly applicd in the oil and gas industry as wcll as in coal mining. The gist of

the contract is that the extractive product is the property of the nation and the investor is therefore regarded as a contractor to retrieve the product and to be paid with part of the product.

The investor is required to finance the entire exploration and all capital assets including exploration-results is considered Government property.

However, after production comes on stream the contractor is allowed to recover his costs in kind according to a certain programme. The balance of the product after deduction of costs in kind due to the contractor, will than be shared at an agreed ratio between the contractor and the Government, represented by the State Oil Company, Pertamina.

So far this system has worked quite satisfactorily for oil, gas and very soon for coal too.

A rather different problem is the timber extraction, where to some extent the same philosophy is applied. The right to extract timber can be granted, however land right will have to remain legally in the hands of the local partner, which gives the overseas partner almost no security on his investments and no collateral for acquiring loans. Participation of the bank in some sort of tripartite structure combining capital and machine supplier, operation and markets in one closed business relationship could be a way-out.

Another very interesting concept, which also proved to be workable are *public-private finance packages,* in particular for large industrial projects requiring extensive back-up infrastructure.

Deposits of valuable minerals and other potentials, could very much strengthen industrial development in the region, provided that there is the necessary infrastructure to reach remote locations.

Whilst development of these resources may well be a viable and profitable proposition, the cost for building the needed roads, harbours and accomodation for personnel is often a burden, which the project cannot carry.

On the other hand, these roads, harbours and other infrastructure may not only serve the particular operation, but open up an entire region for further development in which the industry can be a nucleus for initial linkages and developments in other sectors.

Roads, harbours and other infrastructural means are items which in developing countries are still eligible for soft-term financing, on bilateral or multilateral bases.

Therefore a blending of these soft-term loans with conventional banking finance could be a feasible way to finance such a project.

One such project in Indonesia, has been the harnessing of the hydropotential of a river to supply electricity for a sizeable aluminium smelter. The commercial core of the project is the smelter, which was financed by the Japanese Exim Bank. The hydropower plant, harbour, and township as well as roads, were financed by the Japanese Overseas Economic Cooperation Fund (OECF) and the Japan International Cooperation Agency (JICA), both on very soft terms. Some bridge financing was provided by commercial banks on normal terms.

The company managing the project is a joint venture with equity shared on a 25 per cent to 75 per cent basis between the Indonesian Government and a Japanese investment company in which again 50 per cent of the shares was taken up by the Japanese OECF and the balance by twelve Japanese aluminium smelters and trading companies.

This package, which involves Government budget funds, soft loans, Exim-loans, private equity and some commercial loans, has made the project in its totality sufficiently feasible, and the smelter and associated infrastructure are now already in operation.

Similar financial packages could be created for large forest development projects and agricultural projects, in which the earning (production) centre in principal is supported by private finance and the infrastructure by concessionary laons.

A similar project in the agricultural field was reportedly carried out in an East European country sometimes ago, supported by foreign private funds, domestic funds and some World Bank contribution, while part of the loan was repaid in kind with agricultural produce.

Finally, another way to enhance capital inflows is to *re-finance* large operations which were built as grassroot projects -- naturally with higher capital costs -- with cheaper loans once the operation is fully on stream.

THE ROLE OF BANKS

The above cited examples may give some lead to what banks should do and can do in the coming decades of increased activity in developing countries in their efforts to reach the stage of economic take-off.

The banking world should now probably put more efforts in finding and implementing instruments and packages for financing, which could accomodate a variety of circumstances and prevailing conditions, aside from being a source of funds.

Syndicated loans may be attractive for banks as well as the borrowing country, but they are not necessarily that secure; a lot depends on how this money will be utilised by the borrower.

Indonesian Oil and Japan: Present Situation and Future Possibilities

WIJARSO

Indonesian oil has always been a part of the traditionally friendly relations between Indonesia and Japan. Indonesia has been for many decades a source of oil supply to Japan, and since 1977 also a source of liquefied natural gas (LNG). The relatively short distance between Indonesia and Japan makes Indonesia an ideal source for energy supply to Japan. For Indonesia, Japan has always been considered a ''natural market'' as it is conveniently located away from the large oil fields in the Middle East.

And, as far as one can observe, there are no constraints, neither in the political field nor in the general economic climate, which can obstruct a healthy relationship.

Under these ideal circumstances, one should reasonably expect energy trade to flourish between Indonesia and Japan.

Has this ideal situation been fully utilised? This presentation tries to examine the present situation, and tries to explore what can be done to further improve it.

To touch briefly upon the present activity in Indonesia in the field of oil and gas industry, the present worldwide recession and the global decrease in oil consumption has, inevitably, left some of its mark on Indonesia's oil operations. The continuing decline in oil prices is maybe the single most important depressing factor. Indonesian bench-mark Sumatra light which was priced at

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US$35.00 in January 1981, went down to US$29.53 in March 1983 and has recently further decreased to the present level of US$28.53. It represents an 18.5 per cent decline in just two years. It is obvious that this dramatic decrease in price is not only influencing the government's income, but also the oil companies'

The budgetary constraints for the oil companies caused by these developments, are even further aggravated by spot market sales and downstream losses.

This fact also has an important bearing on Indonesia's oil operations, as more than 90 per cent of Indonesia's production is carried out through production sharing contracts by foreign oil companies.

But Indonesian oil operation, relatively speaking, continues to be in a fairly good shape. It may also indicate how the international oil community feels about Indonesia. Their belief in Indonesia's future as an oil producing country, and the fair treatment they receive, are also important factors in furthering this co-operation.

What might be more important is how the future looks. Future production capacity is not only measured by the availability of probable or potential reserves, of which Indonesia has plenty, but also by the amount of exploration activities to prove it up.

Exploration activities in Indonesia has also been affected by the general downturn of the oil situation, but not really that much. Although exploration drilling was down from 264 wells in 1983 to 217 wells in 1984, this still compares favourably to the 185 wells in 1980. The 1985 programme calls for 233 exploration wells.

EXPLORATION ACTIVITIES

	1980	1981	1982	1983	1984	1985
Seismic (km)	49,976	64,077	57,430	65,260	28,749	33,996
Exploration wells	185	244	238	264	217	233
New Contracts	11	9	13	3	2	na

Another exploration indicator is the amount of seismic surveys performed. Last year they went down from 65 thousand kilometres in 1983 to about 29

thousand kilometres. This performance would admittedly worry Indonesia had there been many new production sharing contracts signed during that period. Seismic surveys are the first phase leading to oil exploration and subsequently, hopefully, to production operations. But due to the fact that Indonesia still has to work out some discrepancies in its new tax law, new contracts are still in the pipeline pending signature. Indonesia hopes to resolve this problem soon. The few contracts signed recently were negotiated before 1984 and therefore the old tax laws prevail. Another indicator may be the oil companies' total expenditures. Preliminary figures show that the 1984 expenditures actually rose by 6.9 per cent compared to 1983. For 1985, the total companies budgets are targeted for a 12 per cent increase, to about US$3.9 billion.

As mentioned earlier, Indonesia still has many probable and potential oil fields. Today out of its 50 basins, more than 30 are still untouched, while of the 13 developed basins only one is really extensively exploited. It is located in Central Sumatra and produces Indonesia's Sumatra light, or better known as Minas, bench-mark crude.

Studies made by the Directorate General of Oil and Gas in 1978 estimated that the amount of total recoverable oil is about 50 billion barrels. The US Department of Energy, in their publication of July 1984, present a more conservative estimate of about 36 billion barrels. Even based on this lower figure, a simple calculation will show that Indonesia will still be an important oil producer well into the next century. The proven recoverable natural gas reserves are also showing an ever increasing availability. Today's 80 trillion cubic feet may well be the tip of an iceberg. Considering that in 1977, when Indonesia started its first LNG shipment to Japan, recoverable gas reserves were only about 30 trillion cubic feet, the increase by more than 150 per cent in eight years is really significant especially since this gas was found in the search for oil. Even if Indonesia could double its LNG export, what it has today would again be enough to keep Indonesia in this trade well into the twenty-first century.

It may be useful to mention another development in Indonesia, namely the domestic oil consumption. Seven years ago, Wijarso remarked that a continuous growth was considered as a potential danger to Indonesia's ability to export oil. The country's efforts to change all that is a complete success story.

In 1978 oil constituted 83 per cent of Indonesia's commercial energy mix, it is today about 73 per cent and at the end of Indonesia's current five year plan expected to be down again to 62 per cent. Annual oil consumption growth of 12-13 per cent of the 1970s is a thing of the past. Present annual growth rates

are in the 2-3 per cent levels due to rational domestic price policies, aiming at the elimination of subsidies.

What Indonesia has in terms of hydrocarbon resources, is a real blessing for Indonesia and in a way for the whole region. But to be usable, Indonesia has not only to be able to explore and develop these resources, but she must be able to market them. The existing ideal conditions between Japan and Indonesia should be the catalyst for mutual beneficial hydrocarbon trade.

History has shown that Indonesia has always been favouring Japan as the most desirable market for Indonesia's natural resources, especially for oil and gas. But a closer look at it will reveal that the response however has not always been reciprocal.

This is, of course, an Indonesian observation, and, beauty after all, is in the eyes of the beholder. But a better understanding of how each side sees the problem, may help to reach a better relationship and can hopefully solve existing and future potential problems.

How important or significant are oil and gas in the Japan-Indonesia economic relations?

The Table below shows results of the bilateral trade.

TRADE STATISTICS (million US$)

	Indonesian Imports to Japan			Japanese Exports		
	Total	Oil	%	Total Value	To Indonesia	
					Value	%
1969	397	206	51.9	15,990	236	1.5
1974	4,572	2,953	64.6	55,536	1,450	2.6
1979	8,794	4,880	55.5	103,032	2,124	2.1
1984	11,175	5,207	46.6	170,114	3,073	1.8

For comparison the situation was taken as it existed at the beginning year of each Pelita, Indonesia's Five Year Development Plan, since this will effectively show the results of the preceding Pelita.

These statistics show that there is a tremendous growth in Indonesia's trade relations, no doubt benefiting each other. And one of the factors that made it all possible was the substantial growth of Indonesia's oil and gas revenue. Development and trade of Indonesia's energy resources in the past did not only improve the general bilateral trade, but has also opened up opportunities for many different activities. Japanese participation in Indonesia's natural resource development however is less than one may expect. This may lie in the nature of Japanese enterprises, which are mostly risk shy, since not too many of them are exploiting these opportunities.

Japanese financial institutions on the other hand, were able to capitalise these opportunities, and are involved in a wide range of energy related projects. The Japanese manufacturing industries may be the ones who benefited most.

It is a mutual beneficial relation, a two-way street, in which Indonesia's oil and gas revenue is the major catalyst for most of the activities.

But how did the Japanese energy consumers play the game in this two-way street? Apparently Indonesia's supplies have always been looked at by the Japanese consumers as a part of the supplier of last resort if there is an emergency, like in the years of the oil shocks in 1973 and 1979. Those were the two peak years during the last 15 years of Indonesia's oil import to Japan. In 1973 for example, Indonesia did reject please for help from its neighbouring countries to be able to fulfill the needs of Indonesia's Japanese customers. Nonetheless Indonesia has not been disappointed by some of them, especially the power companies. But that has been mostly the exception, rather than the rule in time of glut.

It has therefore been very gratifying indeed to notice Prime Minister Nakasone's promise in May 1983 to try to keep Indonesia's oil share to Japan

CRUDE OIL IMPORTS TO JAPAN (MBPD)

	Total		Indonesia		Indonesia Share (%)
	Volume	Index	Volume	Index	
1979	4,836	100	696	100	14.4
1980	4,413	91	633	91	14.3
1981	3,968	82	627	90	15.8
1982	3,700	77	564	81	15.2
1983	3,581	74	503	72	14.1
1984	3,684	76	483	69	13.1

at a 15 per cent level. The Prime Minister's appeal to the Japanese customers apparently was not successful as Indonesia's share dropped to 14.1 per cent in that year. When in 1984, for the first time in the last six years, Japan's oil import rose by about 3 per cent compared to the year before, import from Indonesia however further decreased by about 4 per cent, bringing the share down to 13.1 per cent.

This trend is an indication of a change in the Japanese consumers attitude. The "oil glut" atmosphere has made the short-term gains of lower spot crude prices more appealing, concentrating purchases in the non-term trade.

The consequences of this decline and price reduction in March 1983 for Indonesia has been many-fold. But mainly because of the wise foreign exchange management in the past, the real effect of this decline has been minimised so far. The effect of the further price decline announced recently will still be manageable if crude sales can be sustained.

Another reason for the decline is often blamed to the non-competitiveness of Indonesian crudes compared to Chinese crude. This means that Indonesian crude prices, according to some Japanese buyers, should be cheaper than Chinese crude.

It is believed that it makes no sense for Indonesia to try to beat the Chinese in price competitiveness. Indonesia has to be realistic enough to accept that China is exporting crude to generate the very much needed foreign exchange for their modernisation programme. To be able to do so they even have to sacrifice their domestic oil requirement. And they will sell at any price to be in the market. The history of price adjustments shows that they will match any price reduction of Indonesia's crude. Indonesia has to accept that, at least in the immediate future, some 400 thousand BPD of Chinese crude will try to find its way into the Far Eastern market, and about half of it into Japan. But on the other hand, one does not believe that Chinese crude supply will grow very much larger well into the early 1990s. Today not much has been achieved in terms of new oil finds in China. The excitement of the late 1970s has slowly withered away.

This does not necessarily mean that oil production in China cannot increase. Expectations are that by the 1990s, China may double their production. But their domestic needs, if they achieve their modernisation goals, will be such that one can reasonably expect that their ability to export will not be much more than it is today. Another extreme, though maybe very remote, is that China will not find enough new oil to sustain its present production level. This

scenario, if it materialises, may cause a short supply situation, because China then may well turn into another hungry oil consumer.

It should however not be misunderstood that if China were the only competitor for Indonesia's crudes, and Indonesia was really out to outprice them, Indonesia's wide range of crudes would definitely give the country a competitive edge which they cannot match. But for what purpose? In the end, it is against Indonesia's own interest.

It would probably be in the best interest of all if Japan would look at the total regional supply as the better security in a broader sense.

The danger of turning to outside the region for short term gains, more than anything else, is that it may reduce the ability of countries like Indonesia to continue vigorously to secure future oil deliverability. It will require continuous agressive exploration and developments to keep that ability, which in turn can only be done through revenues generated today. Failing to do so may endanger the capability to deliver enough oil. It is obviously Indonesia's own interest to try to prevent this from happening. It may also be in Japan's interest, to be able to keep its options open, to ensure the availability of short-haul reliable oil.

But one has to be realistic enough not to expect that consumer companies will look that far ahead, when the oil supply seems to be in abundance all the way. Positive consumer governments intervention in concert with producing countries may be the only answer, if they so desire.

Another important factor, more globally, is the level of prices. Fortunately most OPEC producing countries have relatively low cost oil. But many new non-OPEC countries were only able to be a new producer because of the current prices. They may be the ones who are going to be the first victims if prices continue to fall. But maybe more disturbing to consumers is that a tight supply situation may drive prices up again to unprecedented heights. Past lessons have taught us that such a situation is also not desirable for bonafide producers as it may well cause another round of oil consumption decreases.

Another important part of the hydrocarbon trade is LNG, which has been growing since the latter part of the 1970s. It is a clean fuel which meets the Japanese environmental requirement. It was then also considered as a transitional fuel from oil to nuclear.

Indonesia today has two plant sites, one in Badak, East Kalimantan with 4 liquefaction trains and the other one in Arun, in the northern part of

Sumatra with 5 liquefaction trains, with a total ability to produce about 17 million tons of LNG. All the LNG produced so far is exported to Japan, another train will soon be ready in Arun for sales to South Korea.

Indonesia's plants are, no doubt, the best in the world today. Each and every train is capable to operate over 100 per cent design capacity if so required. The mere size of the plants is also providing a supply security no other plant or country can match.

An accident had to happen to prove this point: in April 1982 an explosion, caused by human error, destroyed a heat exchanger in one of the trains in Badak, putting that train out of order. The available over-capacity of all the other trains together could within the same year fulfill the total delivery commitment. By using an available spare heat exchanger the train was operational again within 6 months, while waiting for the newly ordered heat exchanger which took the best of two years before it could be installed. If that kind of accident happened in a two train LNG producing country, it would have destroyed half of its deliveries for about two years. It may be of interest to mention that PT Badak and PT Arun, the plant operators, are both 15 per cent owned by Japanese buyers interest.

Availbale statistics show that Indonesia is the most important supplier of LNG to Japan. Indonesia's share rose from 7 per cent in 1977, at the start of Indonesia's LNG operation, to 54 per cent in 1984, with deliveries of 14 million tons of LNG having an export value of about US$3.3 billion.

One very important difference between the Indonesian LNG contracts and the others is that the Indonesian LNG price formula has never been renegotiated since it was signed in 1973, while the others have experienced upward changes. This shows the mature relation that exists between Indonesia and its Japanese buyers. Indonesia has been "married" for better and for worse. Both parties have accepted the fact that at one time the situation may be in one's favour, while it can be the reverse some other time.

Indonesia's average prices started to be the highest in 1977, and are now turning to be the lowest. But Indonesia has no intention to change what Indonesia has agreed upon. Because in LNG, more than in anything else, the trust that one wanted to implement what one has agreed to, is very important, because the parties have to "live together" at least for 20 years.

As one understands it, most of Indonesia's LNG buyers are satisfied with the existing relationship, and they also trust the reliability of Indonesia's

supply. It is also understood that they want to expand the use of Indonesia's LNG, but certain outside factors may prevent them from doing so.

Although LNG could grow into one of the leading clean fuels for Japan's energy requirement, MITI's long term forecast (November 1983) is limiting the role LNG could play. The plan limits LNG's role to 12 per cent in 1995. Representing some 40 million tons of gas, and then keeping it at about the same level through the year 2000. The interim requirement in 1990, will be 36.5 million tons. The reason of this limitation is not known, while regional LNG supply could actually be expanded much more and at the same time be one of the most secure sources of imported energy to Japan. Even pricewise, LNG price is about equal to crude oil.

Based on available gas reserves, the existing Badak Plant site in Indonesia for instance, can easily and relatively quickly double its production, while the newly discovered fields in Natuna could easily double Indonesia's total present production capacity. If so required, Indonesia could easily provide some 34 million tons of LNG to Japan.

With the other regional suppliers, Indonesia could double Japan's present LNG supply without their being exposed to other security risks. This would be equivalent to some two million B/D of oil.

But as we understand from the "pipeline" the authorities in Japan are favouring LNG supply from outside the region, and especially from outside Indonesia, even to the extent of favouring sources that normally are considered a "political risk."

Apparantly, Indonesia's 54 per cent share of the LNG trade to Japan is considered a big risk factor, so Japan should "diversify" its LNG supply source. If true, the objectives of this diversification policy are not very clear. The underlying idea of this diversification cannot be based on security of supply consideration. From the point of physical security of supply, no other plant or country in the world can match Indonesia's performance. The past has also shown that Indonesia is the most reliable source of energy supply to Japan.

If diversification is more price related, Indonesia's LNG has proven to be the most reasonable source pricewise. The reason is very simple: Indonesia believes that LNG, even more than oil, is and will be a buyers market all the way. And since the price of Indonesia's LNG is linked to the price of oil, there can therefore never be an excessive or out-of-proportions LNG price. Certain conditions in LNG contracts are sometimes portrayed as being "dictated" by

sellers like the "take and/or pay" clause, but that kind of reasoning is usually voiced by those who are not really well versed in the LNG trade. Of course, the volumes involved are negotiable.

So if these observations of Japan's LNG policy are correct, in effect Japan is buying "non-security diversification," serving no purpose at all. And, because LNG is just like oil -- another source of hydrocarbon --, this policy, if correctly understood by Indonesia, is in fact partially negating efforts in Japan's security of supply policy.

In conclusion one may observe the following:

1. Indonesia will remain a significant oil and gas producer in the region well into the next century. All the activities required to ascertain future production capacities are still going on today despite the world recession and the oil glut.
2. The region, in general, and Indonesia, in particular, can contribute a greater share in Japan's energy import requirement. Nevertheless Japan continues to look for supplies which carry a potentially greater risk factor.
3. In the case of oil supply, Japan's pursuance of buying in the spot market is sacrificing long-term relations for short term gains. The 15 per cent share commitment to Indonesia has withered away with time.
4. In the case of LNG import, if what is commonly known as Japan's LNG diversification policy is true, i.e. turning away from a secure and reliable Indonesian supply, what it buys is, in reality, a non-secure diversification.
5. As energy exports are an important source of Indonesia's foreign exchange earnings, Indonesia will be the last to destroy whatever relation exists. This is, in itself, an assurance of realibility. But to be able to provide a continuous supply source, development activities today have to be carried out to guarantee future capabilities. But development expenditures today can only be met with current earnings.

This presentation is not intended to remark that the present energy relation between Japan and Indonesia is deteriorating. On the contrary, Indonesia-Japan relations are definitely good. There may always be complaints from either side, but with dialogues, there will always be room for improvement to the benefit of Japan and Indonesia.

Appendix 1

CRUDE OIL IMPORT TO JAPAN (MBPD)

	Total		Indonesia		Indonesian
	Volume	Index	Volume	Index	Share (%)
1969	2,875	58	297	40	10.3
1970	3,376	68	445	61	13.2
1971	3,811	77	458	62	12.0
1972	4,095	83	535	73	13.1
1973	*4,936*	*100*	*734*	*100*	*14.9*
1974	4,836	98	672	92	13.9
1975	4,531	92	519	71	11.5
1976	4,615	93	554	75	12.0
1977	4,791	97	653	89	13.6
1978	4,658	94	598	81	12.8
1979	*4,836*	*98*	*696*	*95*	*14.4*
1980	4,413	89	633	86	14.3
1981	3,968	80	627	85	15.8
1982	3,700	75	564	77	15.2
1983	3,581	73	503	69	14.0
1984	3,684	75	483	66	13.1

Appendix 2

LNG IMPORT TO JAPAN (in thousand MT)

	Indonesia	Brunei	Malaysia	Abu Dhabi	Alaska	Total
1976	—	4,836	—	—	956	5,798
1977	489	5,395	—	382	993	7,260
1978	3,720	5,265	—	1,258	930	11,173
1979	6,165	5,414	—	1,242	985	13,806
1980	8,504	5,550	—	1,929	859	16,841
1981	8,705	5,226	—	1,960	1,075	16,967
1982	9,134	5,154	—	2,208	958	17,454
1983	9,609	5,251	1,204	1,787	1,016	18,867
1984	14,001	5,241	3,489	2,090	1,015	25,836

Appendix 3

COMPARISON OF LNG PRICES
(CIF in Yen PER MT)

	Indonesia	Brunei	Malaysia	Abu Dhabi	Alaska
1976	—	28,710	—	—	25,673
1977	33,814	28,165	—	26,791	27,513
1978	30,431	23,554	—	23,896	24,126
1979	39,082	26,462	—	26,211	26,093
1980	61,761	57,310	—	62,938	57,584
1981	63,476	67,719	—	74,725	68,896
1982	75,014	74,075	—	80,037	75,867
1983	62,939	63,280	63,579	66,794	64,119
1984	59,464	59,966	62,588	64,518	60,952

Current International Economic Issues: Protectionism, Debt, and Monetary Instability

R.B. SUHARTONO

INTRODUCTION

Before proceeding to discuss the topic, it may perhaps be warranted to dwell a little on questions that might rise in regard to what the title could have possibly meant. Obviously, current international economic issues are to be discussed. However, the word current may indicate that the issues to be discussed belong to the time now passing or now in progress, or that the issues are commonly accepted or prevalent. Accordingly, a simple description or survey of what is now in progress or prevalent (even without reference to past historical context, future likely trend, or both) may suffice; whether such description or survey would be useful is another matter.[1]

A second question may arise in regard to the more precise meaning of current international economic issues.[2] For, the word issue in this context may

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[1]A description or survey of current international economic issues can be conducted in such fashion that each is to be discussed separately or individually, and without the intention of obtaining a picture of a coherent whole, thereby lacking in usefulness. But if the intent is a picture of coherence, it seems relevant to first discuss the conceptual framework to be utilised and the proper weight to be assigned to each element that enters into the picture.

[2]As defined by the organiser of the Conference, and becoming the title of this paper, the current international economic issues are listed as protectionism, debt, and monetary instability, in that order. It is not clear whether the listing indicates the sense of priorities or certain major consideration, or whether it is made simply because they are pertinent, with or without a notion of priority or any other ordering. Nor whether the issues are considered inter-related (causal or otherwise), or whether each can stand out alone.

simply refer to a point of discussion (which begs the question of why the particular points are being chosen in the first place), or to a point of debate or dispute (which contains the possibility of not only differing, but also opposing views on the matter). It may also refer to a matter of wide public concern, but the international dimension of the topic raises another question, whether there exists universally accepted yardstick for defining such concern.[3] Or, it may also refer to the essential point, which then may give rise to a question of whether the three issues do in fact constitute the irreducible minimum and thence become the crux.[4]

Considering those and other possible questions, it appears that some difficulties may be encountered by going directly to discussing the current international economic issues as specified. Accordingly, it seems useful to approach the subject in a somewhat round-about manner, by first examining the recent international economic environment. Furthermore, it also seems useful not to regard the international dimension in a monolithic fashion, but from the perspectives of certain sub-groupings instead.[5]

INTERNATIONAL ECONOMIC ENVIRONMENT

Whatever one may wish to comment on the recent international economic issues, it would perhaps be useful to take into account certain phenomena which may be observed from available data for the last three decades or so. First, the average annual growth rates of GDP in the world economy, which

[3]For example, protectionism, whatever it is, could be a matter of grave concern to those affected by it, but not to those that practice. Thus, it may become a major issue only in so far as it relates to the practices of others, but not one's own; in fact, some, even in the face of the most glaring examples of protectionist measures that they are adopting, have with all innocence proclaimed or worshipped the principle of free trade, virulently attacking others for the slightest deviation.

[4]It is conceivable for one to argue for example that the crux is monetary instability, whereby the two others are simply the impact or manifestation of it. Again, it is also possible for one to assert that the three are merely phenomena or symptoms, and hence the real issue, which is more of a fundamental character, is neither one and has to be sought elsewhere.

[5]In human terms, the group of developing countries account for more than four-fifths of the world population. In terms of economic strength, however, the group of industrial market economies generate nearly four-fifths of the total GDP of the world economy, and providing a market for almost two-thirds of world commodity trade. Given the differences of the two groupings, it seems questionable whether any one international issue can be defined unless the concerns of both merge into a convergence of interests; accordingly, it appears appropriate to discuss the issue from at least the perspectives of each, rather than from the viewpoint of the entity of both. In this regard it has to be emphasized that there are considerable differences as well even among the group of developing countries themselves, so that the classification of the world economy into the two groupings could still lack relevance.

for two decades throughout 1950-1970 had been around 5 per cent, declined in the next decade, and continued to decline in the early 1980s. Second, the value of world trade, which had been growing steadily at high rates for two decades throughout 1950-1970, exhibited a decline for the first time in the early 1980s.[6] Third, major upheavals of global significance occured in the decade of the 1970s, which in turn affected policies and measures adopted by governments. It appears that at least these three factors have been instrumental in shaping the current international economic environment.

GDP Growth Rates: Declining and Continued Low Growth

The world economy had enjoyed rapid and sustained growth for 25 years after the Second World War, but was experiencing setbacks thereafter. For two decades in the 1950s and the 1960s the average annual growth rate of GDP in the world economy reached around 5 per cent; throughout 1970-1982, however, the growth rate declined sharply to about 3 per cent, and preliminary figures for 1983 indicate a growth rate of below 2 per cent (cf. Table 1). While in the decade of the 1970s the average growth rate of GDP in the world economy amounted to about 3.8 per cent, by the early 1980s it never exceeded 2 per cent, averaging to around 1.4 per cent.

Table 1

AVERAGE ANNUAL GROWTH RATE OF GDP IN THE WORLD ECONOMY, 1960-1983
(in percentage)

Grouping	1960-1970	1970-1982	1980	1981	1982	1983
World economy	5.1	3.2	2.0	1.8	—	1.9
Industrial market economies	5.0	2.8	1.3	1.3	-0.5	2.3
High-income oil exporters	16.7	5.0	7.4	—	—	—
Developing countries	5.4	4.8	2.5	2.4	1.9	1.0
Low-income	4.5	4.5	5.9	4.8	5.2	4.7
Middle-income	6.0	5.4	1.5	1.5	1.2	-0.5
Oil-importers	5.8	5.1	4.3	0.9	0.7	0.3
Oil-exporters	6.3	6.0	-2.4	2.4	0.9	-1.7

Source: World Bank, *World Development Report 1984*, and IMF, *International Financial Statistics Yearbook 1984*.

[6]The value of world exports increased from about US$60 billion in 1950 to US$130 billion in 1960, US$310 billion in 1970, and around US$2,000 billion in 1980, but declined afterwards.

Available data for 1950-1960, in conjuction with those in Table 1, establish two features in the pattern of growth throughout 1950-1982. First, the direction of the movement in the rates of growth of GDP among certain groupings of countries is broadly similar to that of the world economy: lower growth in the decade of the 1970s compared to that of the 1950s and the 1960s, followed by declining and continued low growth in the early 1980s.[7] Secondly, throughout 1950-1982, the average growth rates of the world economy were higher than those of the industrial market economies, indicating that the developing countries attained higher growth rates. Subsequently, however, the pattern changed: while the industrial market economies could recently manage to get an upturn, the developing countries continued to experience low and declining growth, so that in 1983 the growth rate of the former was higher, and the latter lower, than the world average.[8]

Whether what happened in 1983 could be regarded as a mere temporary deviation from past pattern, or whether it would at the same time also set the trend for this decade, is by no means certain. An optimistic projection made by the World Bank seems to indicate that the developing countries would continue to grow faster than the industrial market economies, and that after 1985 their growth rates would return to those attained in the 1970s, or even the 1960s: the average annual growth rates of GDP for the developing countries would surge from 2.8 per cent in 1980-1985 to between 4.7 per cent (low case) and 5.5 per cent (high case) in 1985-1995, higher than the corresponding figures for the industrial market economies, viz. from 1.9 per cent in 1980-1985 to between 2.5 per cent (low case) and 4.3 per cent (high case) in 1985-1995.[9] In any case, available projections seem to indicate that for the decade of the 1980s, it appears likely that the average annual growth rates of GDP for the world economy, and for both the developing countries and the industrial market economies alike, would be lower than those of the 1970s.[10]

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[7]Except for low income developing countries: within the two decades of 1960s and 1970s, their average growth rates were between 4-5 per cent, and in early 1980s the figure increased to over 5 per cent.

[8]The growth rates in industrial market economies were reversed from a negative figure in 1982 to 2.3 per cent in 1983, which was also higher than the figures for 1981 and 1982 (cf. Table 1). By contrast, the growth rates of the developing countries continued to decline, from 2.5 per cent in 1980 to 1.0 per cent in 1983. The developing countries in East Asia and Pacific, however, experienced not only an increase in their growth rate for 1983 (6.4 per cent compared to 4.2 per cent in 1982), but at considerably higher than average figure as well.

[9]See *World Development Report 1984*, pp. 34-50.

[10]The experience of seven major industrial countries since the mid-1960s shows that there has been not only marked cycles, but an adverse underlying trend in GDP growth as well (see *World Development Report 1984*, p. 12). Since 1968, GDP growth rates for these industrial countries have shown three downturns; while the present recovery appears to be the third strong upswing,

World Trade: The Debut of A Decline in Value

Concomitant with the decline in the growth rates of GDP was the decline in the volume growth rates of world trade: the rate of growth of world trade in real terms for the decade of the 1970s was about halved compared to that of the previous decade of the 1960s from around 8-9 per cent to about 4-5 per cent per annum.[11] Nevertheless, the value of world trade in the decade of the 1970s expanded considerably, at an average annual rate of over 20 per cent, much higher than that attained in the 1960s (cf. the footnote no. 6). Thus, while the growth rates of world trade volumes had experienced a decline, since the end of the Second World War until the year 1980 the value of world trade continued to accelerate. In the early 1980s, however, continued expansion in world trade can no longer be taken for granted; as can be seen from Table 2, during 1981-1983 the value of world trade in fact contracted for the first time.

Table 2

VALUE OF WORLD EXPORTS AND IMPORTS:
AVERAGE ANNUAL GROWTH RATES, 1970-1983
(in percentage)

Grouping	1970-80		1981		1982		1983	
	Export	Import	Export	Import	Export	Import	Export	Import
World economy	20.7	20.5	-1.7	-0.6	-7.7	-5.6	-2.7	-4.1
Industrial market economies	18.9	19.8	-1.6	-5.3	-5.2	-6.1	-1.2	-1.0
Oil-exporting countries	38.9	29.7	-8.0	18.1	-22.5	6.7	-18.2	-15.4
Other developing countries	20.7	21.2	3.8	8.3	-4.8	-10.5	1.8	-5.4

Source: International Financial Statistics Yearbook 1984, and *Supplement.*

The reduction in the value of trade that started in 1981 was mild compared to 1982, but nevertheless continued until 1983, so that for the two years

in none of the subsequent years has GDP growth matched the peak rate of 1973 (at 6 per cent). Similarly, GDP growth in the world economy in any subsequent year has not come near to the peak rate of 1973 (6.1 per cent), and so has been the case with non-oil developing countries (6.3 per cent in 1973); the same can be observed in non-oil exporting countries, except that the peak occured one year later in 1974 (at 11.9 per cent)

[11]See W. Arthur Lewis, "The Slowing Down of the Engine of Growth," *American Economic Review,* Vol. 70, pp. 555-564.

1982-1983 the average decline was over 5 per cent. Not all countries, however, followed the decline; as can be seen from Table 3, the trade value of the Newly Industrialising Countries in Asia (Asian NICs) in particular continued to expand.

Table 3

DEVELOPING COUNTRIES IN ASIA AND THE PACIFIC:
GROWTH OF TOTAL AND MANUFACTURED EXPORT, 1970-1983[a]

Country Group	Value (in billion US$)		Average Annual Growth Rate of Value (in per cent)		
	1970	1979	1970-1979	1980-1981	1982-1983
Asian NICs	6.4 (4.4)	61.0 (46.0)	28.5 (29.7)	19.2 (19.8)	3.4
Hong Kong	2.5 (2.3)	15.1 (13.9)	22.1 (22.0)	19.9 (19.5)	0.4
Korea	0.8 (0.6)	15.0 (12.3)	37.9 (39.2)	18.9 (18.6)	5.8
Taiwan	1.4 (1.0)	16.0 (13.4)	30.8 (33.0)	18.7 (20.7)	5.3
Singapore	1.6 (0.4)	14.7 (6.3)	28.0 (34.2)	19.3 (20.8)	2.0
ASEAN[b]	4.5 (0.2)	36.6 (4.4)	26.2 (39.4)	15.0 (15.5)	-2.0
Indonesia	1.0 (—)	15.6 (0.4)	34.9 (47.4)	23.6 (28.1)	-5.8
Malaysia	1.7 (0.1)	11.1 (1.9)	23.3 (38.0)	3.1 (9.0)	9.6
Philippines	1.1 (0.1)	4.6 (0.9)	17.7 (33.8)	11.5 (17.0)	-7.2
Thailand	0.7 (—)	5.3 (1.2)	25.0 (47.1)	15.1 (20.0)	-6.3
Other developing countries	44.4 (5.5)	322.6 (36.8)	24.6 (23.5)	16.0 (14.8)	-14.7
World economy	312.3 (172.9)	1,639.3 (870.9)	20.2 (19.7)	10.0 (17.4)	-5.2

[a] Figures in brackets indicate export values of manufactured goods, i.e. SITC 5+6-67-68+7+8.

[b] Excluding Singapore.

Source: Seiji Naya, "Industrial and Trade Policies in Developing Asian Countries: A Comparative Analysis," (unpublished).

From Table 2 and Table 3 certain features in the pattern of the growth rates of trade value can be observed. First, in the past decade of the 1970s, average growth rates for the developing countries were higher than that of the industrial market economies; among the developing countries, the growth rates of manufactured goods were in general higher than those of total exports. Second, with the onset of recession, the average growth rate of world export

for 1980-1981 declined by half compared to that of the previous decade, but manufactured exports continued to grow buoyantly; the average growth rates of total exports for the developing countries (in the range of 15-20 per cent) were still considerably higher than that of the industrial market economies (about 8 per cent). Third, by 1982-1983, however, the decline in the trade values of the developing countries, especially the oil-exporting countries, was sharper than that of the industrial market economies, except for the Asian NICs which continued to enjoy modest trade expansion.

Thus, similar to that in regard to the pattern of the growth rates of GDP discussed earlier, figures for 1982-1983 indicate that there may also occur a major departure from the past pattern of growth in the value of trade. Again it cannot be ascertained whether this is a mere temporary deviation or whether in fact it is a reflection of a fundamental change. For it has not been established whether the trade contraction, and the change in its pattern, can be explained solely in terms of the sluggish GDP growth. In any case, the experience seems to have contributed to the growing pessimism, that the prospect of a slow economic growth environment, combined with increased protectionism and other factors, would all but preclude the developing countries from duplicating the success in export performance experienced in the 1970s. This may in turn reinforce the argument made earlier, that the economic growth of the developing countries in the 1980s would on the average be lower than that of 1970s.

The Decade of the 1970s: Major Upheavals

The decade of the 1970s is perhaps unusual, in that there occured unprecedented major upheavals in the international economic environment. First there was the Nixon shock, bringing an end to the Bretton Woods system based on fixed exchange rate.[12] This event culminated in the institution of general floating in 1973, and flexible exchange rates system that followed has allowed several re-adjustments in exchange rates, thereby contributing to global monetary instability. By the end of the decade, the US dollar was worth, in terms of SDR, about one-third less than at the beginning, making dollar obligations less burdensome; since 1980, however, there was a sharp reversal and in the early 1980s the US dollar continued to move back towards parity with SDR (cf. Table 4).

[12] In December 1971 foreign exchange rates were adjusted under the Smithsonian Agreement, which in efect amounted to a devaluation of the US dollar against other major currencies and was a de facto collapse of the Bretton Woods regime. At that time the change seems to reflect the effect of the strong pressure on the dollar caused by huge current account deficits, and the loss of US leadership in the world economy.

Table 4

US DOLLAR EXCHANGE RATE IN SDR, 1970-1983

End Year	Rate
1970	1.00000
1971	1.08571
1972	1.08571
1973	1.20635
1974	1.22435
1975	1.17066
1976	1.16183
1977	1.21471
1978	1.30279
1979	1.31733
1980	1.27541
1981	1.16396
1982	1.10311
1983	1.04695

Source: *International Financial Statistics.*

Subsequently, there were the two oil shocks in 1973 and in 1979, which caused wide shifts in the terms of trade, and created conditions that could have slowed secular growth and did in fact trigger world recession. The first recession of 1974-1975 in the world economy and in the industrial market economies was sharp, but the duration was short; the developing countries were not too badly affected.[13] The second recession of 1980-1983 on the other hand was not so sharp but it lingered longer, and the developing countries were more severely affected.[14]

[13]GDP growth rates for the world economy fell sharply from 6.1 per cent in 1973 to 1.9 per cent in 1974 and 0.5 per cent in 1975, but rose again to 5.2 per cent in the subsequent year. Similarly, GDP growth rates for the industrial market economies also fell sharply from 6.0 per cent in 1973 to 0.8 per cent in 1974, then to -0.4 per cent in 1975, but subsequently rose to 5.0 per cent. In the developing countries on the other hand, GDP growth was 7.4 per cent in 1973, fell modestly to 5.9 and 4.0 per cent in 1974 and 1975 respectively, before rising to 6.3 per cent in 1976.

[14]GDP growth rates for the world economy continued to fall, but less sharply, from 3.7 per cent in 1979 to 2.0, 1.8, and close to zero per cent in the subsequent years, and estimated to have risen to only about 2.4 per cent in 1983. Similarly, GDP growth rates for the industrial market economies declined from 3.3 per cent in 1979 to 1.3 per cent in both 1980 and 1981, then to -0.5 per cent in 1982, and estimated to have risen to about 2.3 per cent in 1983. GDP growth rates for the developing countries, on the other hand, fell more sharply from about 5 per cent in 1979 to 2.5 per cent in 1980, and continued to fall until 1983.

Perhaps the developing countries had fared better partly because the duration of the first recession was shorter, and partly due to the fact that existing condition allowed them to borrow heavily abroad. The second recession, however, was longer, and in the meanwhile the availability of foreign capital declined abruptly after 1981, imposing substantial pressure on those developing countries that had come to rely on foreign loans as a principal means of escaping from the adverse effect of world recession. In any case, an examination of the pattern of growth rates of GDP for the developing countries and the industrial market economies throughout 1960-1983 indicate that growth in the former has been significantly related to that of the latter.[15]

The first two upheavals were accompanied by a large drop in the economic growth of the industrial market economies. GDP growth, which had been at an average annual rate of 4.9 per cent throughout 1960-1973, was cut by more than two-fifth in the subsequent period until the next upheaval.[16] By the time the next upheaval occured in 1979, GDP growth during the subsequent recession was again cut, this time by more than three-fifths compared to the already low growth in 1973-1979. This, of course, is not meant to convey the impression that the declines in growth were caused by the upheavals.

By examining the GDP growth rates in the industrial market economies throughout the period 1960-1983, it could be discerned that the trend of declining growth is already noticeable even prior to 1973. If this were to indicate the tendency for a long-term decline in economic growth, then certain underlying conditions must have existed already. In this case, the upheavals may have become the contributing factors for, but by no means the cause of, the deterioration in economic performance of the industrial market economies.

Policy Context

Whatever may have been the policy response in the industrial market economies to the major upheavals of the 1970s, subsequent adjustments that occurred brought the decade to an end with the phenomena of inflation accelerating, unemployment steadily rising, and GDP growth decelerating, while new protectionism widespread and debts growing. A cursory look at the available data, however, seems to suggest that the first three are not new phenomena, and their occurrance could be traced back to the mid-1960s.

Since the later part of 1960s inflation and unemployment in industrial market economies have tended to follow GDP growth, with a lag of about a

[15]See, *World Development Report 1984*, Figure 2.1, p. 12.

[16]It can be noted that Japan's GDP growth which had been above 10 per cent per annum prior to 1973, was cut in half in the period after 1974.

year and in opposite directions. Even prior to 1973, there is already evidence of stagflation, characterised by accelerating inflation with greater unemployment and continued deterioration in economic performance. The major upheavals may have aggravated the problem, but certainly do not constitute the cause.

In the manufacturing sector, which is an important determinant for employment and economic growth in industrial market economies, the growth of labour productivity had indicated a tendency towards slowdown.[17] With labour market rigidities, however, real wages were rising at rates faster then warranted by the underlying productivity growth during the late 1960s and by the early 1970s.[18] Meanwhile, capital-output ratios were rising, and real rates of return on corporate capital fell in 1970-1973 through 1974-1976 compared to the period 1965-1969. Governments made efforts to achieve the required stability in the labour market through some form of incomes policy, combined with fiscal and monetary expansion, and letting both unemployment and inflation rose.[19]

Changes in the underlying conditions that had been in evidence since prior to 1973 may have explained the tendency towards slower economic growth, and according to the World Bank these changes involved four factors.[20] First, by the late 1960s opportunities for catching up with the United States technological superiority had been largely exploited by both Japan and Western

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[17]Among seven industrial countries (Canada, France, Federal Republic of Germany, Italy, Japan, United Kingdom, and United States), the growth rates in labour productivity for the manufacturing sector throughout 1962-1969 were in the range of 3.1 per cent in the United States and 11.2 per cent in Japan: in 1969-1973, the range was narrowed to 3.2 per cent in the United States to 8.7 per cent in Japan while in each country except Italy the rates declined; by 1973-1975 in all other countries except the Federal Republic of Germany the growth rates further declined sharply while four countries experienced negative growth (in the range of -1.8 per cent in Japan to -0.3 per cent in the United States).

[18]Faced with the higher costs of employing labour, firms shifted to more capital-intensive methods of production, which also contributed to sharply rising unemployment.

[19]Given real wage inflexibility, government policies contributed to stagflation. In view of the productivity slowdown, the rate of increase in real wage that would have been compatible with full employment should have been lowered. It appeares, however, that only Japan, the United States, and Canada adjusted quickly, where the rates of growth in real product wage during 1973-1975 compared to 1969-1973 declined sharply in Japan from 12.6 per cent to 0.6 per cent, while the corresponding figures for the United States and Canada were both from 3.6 to 0.1 per cent; in Western Europe the adjustment only occurred in late 1970s. Thus, while the United States and the European Community have a similar size of labour force, employment in the 1970s grew by about 20 million in the former and by only 2 million in the latter.

[20]See, *World Development Report 1984.*

Europe, and hence a source of rapid growth declined in significance.[21] Secondly, the shift of workers from low-productivity agriculture to high-productivity manufacturing had also largely been exhausted. Third, the increasing share of service industries in GDP may have slowed economic growth, given its lower productivity growth compared to manufacturing. Finally, trade liberalisation and re-integration of the industrial market economies, which had boosted growth for at least two decades, was no longer providing the stimulus it did earlier.

All the factors mentioned above were further exacerbated by the growth and pattern of public spending, taxation and fiscal deficits in the industrial market economies. The root of the problem of inflation, unemployment, and slow growth lies in the inter-linkages between the changes in underlying conditions and policy-induced developments that were brought about by pressures in the labour market and on public finance. These policy-induced developments were the results of first, accommodation to labour market pressures, contributing to the increasing rigidity of the labour market and the resulting strong upward pressure on real wages; and secondly, increased reliance on deficit financing which contributed to high interest rates. The major upheavals of the 1970s compounded the difficulties and required adjustments which the industrial countries found difficult to make, so that there occurred the stop-go pattern of cyclical disturbances combined with rising unemployment and accelerating inflation, bringing about monetary instability, growing debt, and protectionism.

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[21]In fact, during the 1970s many believed that the world already entered into a period of stagnation in technological innovation. This may perhaps have turned out to be a misconception, due to the failure to perceive adequately the fundamental difference between current technological innovation and any other that had come before. Technological development from the 1940s through the 1960s had been a mix of both innovations and historically unprecedented number of trail-blazing inventions. Since successive inventions of epochal new technologies (transistor, television, computer, nylon, jet engine, nuclear power, anti-biotics, etc.) had unleashed a flood of technological innovations, invention and innovation came to be regarded as one and the same thing. Since the 1960s, on the other hand, it is hard to find any technological innovation which is based on completely new principles. In electronics, the transistor was the last revolutionary invention; even what has been considered as micro-computer revolution is a mere extension of the application of the transistor and not based on significant departures from known principle. Nevertheless, although advances in technological innovations in micro-electronics are only an extension of developments in semi-conductor technology (beginning in 1948 with the development of the transistor, followed by IC in the 1960s, and LSI and VLSI in the 1970s), they are in fact revolutionary and have precipitated momentous transformation in human history, bringing about a new age of technology. See for example M. Moritani, *Japanese Technology* (Tokyo: Simul Press, 1982).

MONETARY INSTABILITY

The end of the Bretton Woods system, in and by itself, would have led to monetary instability anyway. On the other hand, and particularly in the face of labour market rigidities, increased deficit financing, and adverse underlying conditions, the oil price increase should have been followed by policies of adjustments. Instead, during the 1970s the industrial market economies followed accommodating policies, designed to minimise the employment and real income effects of the adverse developments, but at the cost of unleasing inflationary forces.

Meanwhile, the markets became more sensitive and there developed certain psychological conditioning: as soon as it was widely believed that governments were to embark on an inflationary course, nominal wages rose while bond prices and exchange rates fell. Given the floating exchange rates, this resulted in the tendency for inflation to rise mere quickly than anticipated and, in turn, for authorities to be forced to impose monetary restraint sooner than would have been necessary. In any case, inflation rose rapidly in the industrial market economies and in the global economy (cf. Table 5). In the context of general world inflation, by the end of the decade of the 1970s the worth of the major international currency, the US dollar, was one-third less than at the beginning (cf. Table 4); in terms of certain major currencies, the dollar depreciated about 50 per cent against the German mark and about 60 per cent against the Japanese Yen.

By the end of the 1970s, it came to be recognised that countries were caught in an escalating round of price increases, requiring the acceptance of the real cost necessary to break the escalation.[22] At the same time, the general well-being and the age composition of the working population in industrial countries gave rise to a political block with a strong interest in the control of inflation. Thus, there was a sharp reversal from accommodating policies of the 1970s to those of disinflation, which may be seen as a determined attempt to break out of the vicious spiral of labour market regidities, inflation, macroeconomic instability, and slow growth. It was however difficult to reduce inflation which had reached the magnitude of the 1970s without some loss of production and employment. Furthermore, in the public minds the credibility of government commitment to reduce inflation seems to have not been unquestioned; accordingly, nominal interest rates did not decline as inflation

[22]The control of inflation became part of the 1980 US election campaign, with the Republican presidential candidate seen as more likely to achieve the goal. Under President Reagan fiscal policy was alternatively expansive and contractive, but not enough to offset the tight money policy of the Fed, whose Chairman that had been appointed by President Carter was determined to control inflation and not to bail the government out of its growing deficit.

declined, and disinflation was accompanied by the rise in real interest rates.[23] The result was, as characterised by the World Bank, "the worst recession since the 1930s."[24]

Table 5

CONSUMER PRICES AND REAL INTEREST RATES, 1970-1983
(in percentage)

Year	Consumer Prices		Real Interest Rates[a]	
	Industrial Countries	World	US Treasury Bill	LIBOR
1970	5.6	6.0	3.94	4.95
1971	5.2	5.9	6.34	8.71
1972	4.6	5.7	-1.03	0.49
1973	7.6	9.4	-26.37	-24.03
1974	13.3	15.2	-28.23	-24.96
1975	11.1	13.3	6.82	8.12
1976	8.3	11.1	-0.91	-0.19
1977	8.4	11.3	-9.73	-8.87
1978	7.2	9.6	4.32	6.40
1979	9.1	12.4	-6.46	-4.79
1980	11.9	15.8	-3.48	-1.66
1981	9.9	14.1	20.38	22.40
1982	7.5	12.3	17.32	20.10
1983	5.0	12.6	12.62	14.10

Note: [a]Calculated in terms of unite value index of exports for non-oil exporting developing countries.

Source: *International Financial Statistics 1984.*

Disinflation could be considered successful in reaching its immediate objective.[25] The costs are however in many ways enormous. First, and the most obvious, is the loss in production, particularly in the United States, whose

[23]If the extent and persistence of monetary tightening had been fully anticipated, nominal interest rates would have declined as inflation declined. Apparently this was not the case, evidence of how long it took, once established, to bring inflationary expectations down, and in the meantime the credit market was getting tight. With growing budget deficits in the United States and several European countries, and the decline in the surplus of oil-exporting countries, the supply of real savings in the world economy also declined. Furthermore, with slow and unstable growth, gross and net savings rates had declined: net savings rates in industrial market economies, which peaked in 1973 at 14.1 per cent of GDP, subsequently hovered in the range of 9-10 per cent.

[24]*World Development Report 1984,* p. 20.

[25]Although, with few exceptions, rates of inflation remained above the average for the 1960s, among major industrial countries the reduction in inflationary rate was particularly sharp in the United States..

amount of decline is larger than the combined GDP of many developing countries; while there is evidence of recovery, it is not certain whether the recovery could be sustained:

Table 6

WORLD ECONOMIC PERFORMANCE: GROWTH RATES OF GNP, 1981-1985
(in percentage)

Country Group	1981	1982	1983	1984	1985[a]
OECD Countries	*1.7*	*-0.3*	*2.6*	*4.7*	*3*
USA	-2.5	-2.1	3.7	6.3	3
EEC	-0.4	0.6	1.1	2.2	2.5
Japan	4.0	3.3	3.0	5.7	5
Developing Countries	*1.2*	*0.2*	*0.8*	—	—
Oil-exporting	-4.0	4.3	-1.1	—	—
Non-oil exporting	2.8	1.5	1.6	—	—
Africa	1.8	1.2	0.1	—	—
Asia	5.1	4.5	6.5	–	—
Middle East.	5.4	3.4	4.2	—	—
Western Hemisphere	0.2	-1.6	-2.3	—	—

Note: [a] Projected.

Source: OECD. *OECD Economic Outlook 1984.*

Secondly, there are questions of whether the adverse effects for world trade and the world trading system are transient, or whether it would become permanent. It may be recalled from Table 3 that the value of world trade actually fell during the recession. The decline in world trade may have been partly the result of the recession itself, but of more significance is the possibility that it has been related to the widespread and apparent growth of protectionism (which has increasingly taken covert and obscure forms, and therefore difficult to measure quantitatively), and the consequent effect that protectionism may have had on the pattern of world investment.

Third, there may be serious repercussions for the international financial system and global monetary stability, partly due to the mix of the use of fiscal and monetary policies pursued by the United States, and partly to the volatile movement in real interest rates. Since the United States has a relatively low savings rates, the growing budget deficit financed by borrowings has immediately resulted in the rise in the interest rates. The relatively high interest rates in the United States have attracted substantial capital inflows, and accompanied by large appreciation of the US dollar and an upward pressure on the levels of interest rate worldwide.

What has been mentioned above might have been a plausible explanation of what happened, but the relationship between high interests in the United States and the strengthening of the US dollar is in fact perhaps more complicated than it appears to be. For, if the former causes the latter, than a decline in US interest rate should be accompanied by a weakening of the dollar. This, however, does not seem to have been the case: for instance, between April and December 1984 the US prime rates declined from 12 to 10.75 per cent; instead of the US dollar weakened, the German mark, British pound, and Swiss franc depreciated against the dollar by around 20 per cent.

In order for the causal relationship to hold true, it must be true that the level of interest rates determines the demand for dollars by foreigners. Available data, on the other hand, seems to indicate that the strength of the dollar reflects less an increased demand for dollar by foreigners than a decreased demand for foreign currencies by Americans.[26] If this were to be the case, then the US dollar would continue to remain strong as long as the United States leads the world economic recovery; hence, the other relationship, viz. that the rise in the US interest rate was accompanied by rising levels of interest rate worldwide, is again perhaps less of a causal relation than a reflection of imbalances in economic performance.

Whatever would be the correct explanation for the strengthening of the US dollar, it has produced serious effects for the international financial system and the global monetary stability due to the fact that the bulk of international indebtedness is denominated in dollars on the one hand, and a combination of the following factors on the other. First, the switch from accommodating policies to disinflation, in conjuction with the mix of fiscal and monetary policies adopted by the United States, has made nominal interest rates high; with inflation falling, real interest rates rose.[27] Second, the US dollar has con-

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[26]The amount of foreign investment in the United States in 1984, when the US prime rates were between 10.75 and 12 per cent, was roughly equal to that of 1981 (about US$83 billion), when the rates were between 15.5 and 20 per cent, indicating that the decline in interest rates did not reduce foreign investment in the US. On the other hand, US investment abroad declined from about US$108 billion in 1982 to less than US$2 billion in 1984, and US lending overseas from about US$110 billion in 1982 to a meagre US$300 million in 1984. Apparently, US investors have chosen to shift the distribution of their investments from foreign to US assets, and US bank lending has also shifted towards the US, borrowing foreign currencies and convert it to the US dollar in the process.

[27]During 1960-1973 the real interest rate in the Euro-currency market, measured in terms of three-months dollar rate and the US GDP deflator, averaged 2.5 per cent, while in 1973-1979 the average declined to only 0.7 per cent (at various times it was negative); in 1981 and 1982, on the other hand, the rates surged to about 7 per cent. With low and falling real interest rates, there had been a tendency toward increased indebtedness; as the real interest rates suddenly jumped, serious difficulties were bound to follow from the increased burden of scrvicing the debts.

tinued to appreciate, making monetary management more difficult.[28] Third, high interest rates and appreciation of the dollar seem to have indicated the tightness of international credit markets: thus, economic growth is inhibited not only by the cost, but also the availability, of financing.[29]

All these factors are powerful forces for generating global monetary instability. Given the huge amount of dollar-denominated debts, on the other hand, the rise in nominal and real interest rates and the slowdown, or even halting, of new lending could raise the spectre of a global financial crisis.

INTERNATIONAL INDEBTEDNESS

In earlier times, maintenance of high growth and near full employment in the industrial countries had produced more trade and less protection, providing a boost to world trade. Inflation and near zero or even negative real interest rates in the 1970s helped debtors in general: in this context, it was almost impossible to borrow too much, and the tendency towards increased indebtedness became a general feature. Subsequently the equation changed when there occurred disinflation, slowdown in the growth of industrial countries, rising nominal and interest rates, continued appreciation of the dollar, and increased protectionism.

The accommodating policies pursued by the industrial countries, together with the huge increase in world's availability of credits from the recycling of large surplusses of oil exporting countries, had allowed the developing countries that chose to do so to also follow accommodating policies. The common policies adopted by the developing countries, especially the middle-income countries, in the 1970s were to stimulate demand through expansionary monetary and fiscal policies, while the favourable external condition allowed the financing of the resulting current account deficits through commercial borrowing. The total current account deficit (excluding official transfers) of the developing countries rose continuously, and shows a dramatic increase from about US$13 billion in 1970 to US$108 billion in 1981 (and then declined sharply by about half to US$56 billion in 1983).[30]

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[28]While national prices continued to rise, although at slower rates, according to the World Bank the average of international prices, converted into dollars, was actually falling, resulting in the rise of the real purchasing power. Correspondingly, the burden of interests and principal repayments for dollar-denominated debts greatly increased.

[29]But, as been remarked earlier, slower growth in countries outside the United States could have contributed to a further strengthening of the US dollar, thereby creating a vicious circle.

[30]The dramatic increase is not only observed among the oil-importing countries (whose combined deficit rose from US$10 to US$83 billion), but also in the oil exporting countries (with a rise

All these current account deficits resulted in the rapid increase in outstanding debts, at an average annual rate of about 20 per cent throughout 1970-1983; by 1983 the external liabilities of developing countries amounted to US$810 billion.[31] As GNP did not grow as fast, the ratio of external debt to national income in the developing countries continuously rose, from 13.3 per cent in 1970 to 26.7 per cent in 1983. While the effect of the current account deficits on the quantitative magnitude of the debts is significant, of more importance are perhaps the way the deficits were being financed (as well as the sources of financing), and the problem of servicing the debts, particularly because they are largely dollar-denominated.

Until the early 1970s, multilateral institutions increased official flows of capital at an accelerated rate; the commercial banks took the back seat while these institutions interposed themselves between the financial markets and the developing countries. Subsequently, the recycling of petro-dollars provided the commercial banks with a large amount of resources: these banks now lent directly to developing countries. This phase ended suddenly in the Summer of 1982 when the debt crisis erupted, with the commercial banks subsequently engaged in a somewhat involuntary lending; in providing credits, various lenders worked together, generally under the aegis of the International Monetary Fund, within a framework of agreed policy reforms.

The changing pattern of the sources of financing had significant effect on the way the deficits were being financed prior to the debt crisis. While in 1970 only about 36 per cent of the deficit was financed from net private flows, by 1981 it accounted for 46 per cent (it had reached as high as 53 per cent in 1978 and 1979).[32] As private flows became more important, net capital inflows to developing countries reached the amounts that were much larger than required for financing the deficits, resulting in sizeable net additions to their foreign exchange reserves.[33] Furthermore, a large proportion of debt on variable rates

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from US$3 to US$26 billion). For the middle-income countries the peak came in 1981, a year later than for the low-income countries: after the peak was reached by the former, adjustment had to come rapidly, with the deficit declining at the rate of over 22 per cent per annum (compared to the low-income countries at just over 9 per cent). Accordingly, the burden of adjustment from high current account deficits financed by external borrowing to a relatively low deficit was felt much more by the middle-income countries).

[31]The World Bank, *World Debt Tables, 1983-1984.*

[32]The sources of finance differ between groups of developing countries: for the low-income countries of Asia and Africa, concessional flows accounted for four-fifths of the deficit; for the middle-income oil importers, net private flows amounted to about three-quarters of their combined deficits.

[33]Thus in three years prior to 1981 there was a massive reserves build-up that added US$102 billion to the collective reserve position of the developing countries. Subsequently net financial

reached unprecedented levels which, in addition to the larger magnitude of the debt, also accounted for the sharp increase in debt service ratios, from 13.5 per cent in 1970 to nearly 21 per cent in 1982.[34]

In order to have a clearer picture of the magnitude of the problem in recent years, it may be useful to look into the build-up of outstanding debts around the year when the debt crisis erupted, which shows certain features (cf. Table 7) First, it can be seen that there is a sharp decline in the rate of increase of external liabilities: while in the 1970s they increased at the rate of around 20 per cent per annum, subsequently the rates declined to 15 per cent in 1981, 9 per cent in 1982, and only 6 per cent in 1983.

Table 7

PERCENTAGE DISTRIBUTION OF DEBT COMPOSITION AND SELECTED DEBT INDICATORS FOR DEVELOPING COUNTRIES, 1980-1983 (in percentage)

	1980	1981	1982	1985
Type of Debt				
Medium- and long-term	76.8	74.6	74.9	78.4
Public	(28.7)	(27.0)	(27.1)	(27.8)
Private	(48.1)	(47.6)	(47.8)	(50.6)
Short-term	21.7	23.4	22.2	17.9
IMF Purchases	1.5	2.0	2.9	3.7
Total	100.0	100.0	100.0	100.0
(in billion US$)	(607)	(701)	(766)	(810)
Selected Indicators				
Ratio of Debt to GNP	19.2	21.9	24.9	26.7
Ratio of Debt to Exports	76.1	90.8	108.7	121.4
Debt Service Ratio	13.6	16.6	19.9	20.7

Source: *World Debt Tables, 1983-1984,* and *World Development Report 1984.*

Secondly, the decline in the rates of increase of short-term debt liabilities is also significant: they increased by 24 per cent in 1981, but the rates declined to

flows were much lower than the current account deficits: there followed massive depletion that totalled to US$42 billion during two years; by the end of 1983 the reserves held by the middle-income oil importing countries were at dangerously low levels.

[34]The share of variable rates loan in the total for the developing countries as a whole increased from around 10 per cent in 1970 to 40 per cent in 1980. Short-term interest rates, on the other hand, increased from less than 5 per cent in the early 1970s to over 20 per cent a decade later.

4 per cent in 1982 and - 15 per cent in 1983. Third, in order to compensate for the decline, developing countries used purchases from the International Monetary Fund, which increased from US$9 billion in 1980 to US$30 billion in 1983. Fourth, figures for certain debt ratios indicate that recently they reached a relatively high plateau.

The 1981 and 1982 figures for the debt service ratio in particular, however, does not seem high enough as to precipitate the debt crisis in the summer of 1982. A study of the IMF has also noted that the emergence of serious debt problems since mid-1982 occurred much more abruptly.[35] A discussion based on economic and financial terms could have explained the event, but it may not suffice without an analysis of political and psychological factors.[36]

The debt crisis was not produced by an abrupt worsening in the financial position of those developing countries that had borrowed heavily from the international financial markets, nor the consequence of sudden calamity that befell the providers of finance. It was perhaps more the result of psychological factor, the loss of confidence on the part of the commercial banks in the ability of their debtors to service outstanding debt; on the other hand, this confidence was lost in large measure due to a series of political developments that began in Poland and culminated in the Falklands conflict.[37]

While the cloud of the debt crisis gradually cleared up in the second half of 1984, the confidence among lenders, that could be destroyed overnight, might have taken a long time to restore. The developing countries would have to be forced to adjust by considerably curtailing their current account deficits. But one way of narrowing the deficits that could have been done by the developing countries themselves, viz. through increased exports, has been barricaded by the ghost of protectionism in industrial countries.

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[35]See, *Recent Multilateral Debt Restructurings with Official and Bank Creditors* (Washington, D.C.: International Monetary Fund, 1983).

[36]See, Shahid J. Burki, "Developing Countries Debt: A South Asian Outlook," *Journal of International Affairs* (1984).

[37]In the case of Poland, the American and European banks balked at providing a steady flow of commercial funds, but the United States and several European governments later provided tacit repayment guarantees. The United States decision to support Britain in the Falklands conflict, on the other hand, seems to have closed the protective umbrellas that had been opened for commercial banks, causing the flow of funds to Latin America to virtually dry up. Mexico soon had to suspend payment to its creditors, followed by Argentina, Brazil and Chile (in December 1982, these four countries held 45 per cent of the total outstanding loans to commercial banks of the developing countries which amounted to US$363 billion). It can be noted that several American banks had an exposure in Latin America well beyond their capital and reserves, but there was an expectation that the US would come to the aid of those countries in the event that the region fell into a serious payments crisis. See Larry A. Sjaastad, "International Debt Quagmire -- To Whom Do We Owe It?" *World Economy* (September, 1983).

PROTECTIONISM

In recent years, a lot has been said, but perhaps much less is known, about protectionism, or what some have come to call neo-protectionism or new protectionism. Even the meaning of the ending "-ism" is by no means clear: if it were to indicate a doctrine, theory, system, or principle (for example socialism), it appears doubtful that one could point out any one country that openly subscribe to it; perhaps it would be more appropriate to regard it as simply an action or process (such as terrorism) that is directed or geared to protect certain economic activities.

The use of the latter characterisation of protectionism necessarily implies that the matter has to be seen on a case by case basis, often involving subjective judgement.[38] Thus, only forms of protectionism can be singled out but without a definition of what protectionism is.[39] These forms are sometimes subtle and sophisticated, shady and indistinct, covert and obscure.[40] By design, they could be difficult to detect, lurking in the shadowy ground of protective devices that are legal, or illegal, under the GATT. Nevertheless, although there is as yet no useful index of protectionism, it has been commonly accepted, and even fashionable, to suggest that there has been a widening and explosive growth of protectionism.

Whatever protectionism is, its scope of coverage has widened considerably because economists and policy-makers have placed a more aggressive meaning on the concept of protection, viz. creating any barriers to imported products, thereby protecting domestic industries against outside competition. The increase in trade barriers most often does not involve increases in tariffs, but those of non-tariff variety such as quantitative restrictions, threats of legal action, nuisance measures, and whichever would make imports more difficult

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[38]Question can be raised whether subsidies for decaying industries could come under the heading of protectionism. Or wine analysis and certification in the European Community; French insistance that all imports of VTR should come through one town, Portiers; administrative guidance on baseball gloves in Japan; some sections of US trade law involving questions of fairness, such as policies of other governments which by US interpretation are considered unreasonable; counter-purchase adopted by many countries; etc.

[39]It has been argued in official circle that protectionism in Europe is not so bad, involving few barriers. These, however, are placed where they have the greatest effect, and wherever the developing countries can compete effectively, barriers tend to appear (agriculture, clothing, and footwear are the most obvious). It can also be noted that protectionism in the European Community varies from protcction for all member states (such as agriculture and steel), to protection for individual states (such as quota of quarts watches in France).

[40]Thesc forms dcfy any illumination that might bc provided through a prccise definition, and impossiblc to discuss without rcsorting to particular, or evcn scemingly pctty, instances.

and complicated.[41] While other measures proliferate, increasingly the industrial countries have resorted to arrangements used as a means of avoiding formal import quotas; thus, VER and OMA, in the jargon of trade policy, have become popular, although they violate the principles and rules of GATT.[42]

According to UNCTAD, the breakdown of the Bretton Woods system coincides with a movement of the world trading system away from its original post-war GATT rules and MFN principles.[43] A malaise has affected the world trading system, resulting in reduced adherence to GATT principles and declined confidence in the GATT system; while there have been repeated calls for trade liberalisation and the removal of trade distorting practices, the gulf separating the pronouncements from practices that actually happen is substantial, and seems to be widening.[44] There has been increased tendency for the codification of protection and the enforcement of trade distorting measures; the adoption of euphemism, such as VER, OMA, safeguards, subsidies and countervailing duties, etc. have become more and more prevalent.

As trade barriers have become more and more formidable, there has been increased attempts to jump over the barriers, diverting investment funds from expanding export capacities in the developing countries possessing comparative advantage towards investments in import substitutes and non-tradables in the industrial countries.[45] Considerable funds which, if only the

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[41]Volatile exchange rates movement, together with the huge increase in internationally mobile funds, have often rendered tariffs a less effective means of protection.

[42]In these arrangements, an importing country enters into tacit agreement with an exporting country such that the flow of exports to the former will not exceed certain limits: in the case of voluntary exports restraint, the limit is designated in terms of specific volume of exports; in the case of organised marketing arrangement, as a share of the domestic market of the importing country. The largest OMA is MFA, which represents the first case in post-war history in which the basic GATT principles were renunciated on behalf of a major segment of the manufacturing sector.

[43]UNCTAD, *Trade and Development Report 1984.*

[44]See, "Industrial Re-structuring and Investment Opportunities," an address by Radius Prawiro, Minister of Finance of the Republic of Indonesia, in final report of *Second Symposium on Financial and Business Co-operation in Asia and the Pacific* (The Export-Import Bank of Japan: Tokyo, February 1985).

[45]It has been remarked that in the so-called trade war between Washington and Tokyo, it is getting no longer possible for the American to tell who is "them" and who is "us." There has been broad based penetration of Japanese trade and investment across the US: the wave of joint ventures in steel, autos, machine tools, computers; the growing role of Japanese banks, which are now financing American hospitals, universities, industrial mergers; the web of co-operative relationships in research and development; etc. In the event that the US slams the door on imports, the Japanese will already be inside the house while the developing countries will be left knocking at the

principle of comparative advantage were allowed to operate, would have been invested in the developing countries have instead been diverted to the developed countries.

There may be economic and social reasons which could be marshalled for justifying the increased tendency towards protectionism. But since the ordinary citizens. are adversely affected, the proliferation of protectionist measures, whether as administrative fiat or legislation, could not be sustained without the support of powerful political blocks comprising not only of the industrialists concerned but also other interest groups which are not necessarily part of the traditional protectionist lobby. Accordingly, even efforts towards freezing the current protectionist measures to a status quo, let alone dismantling them, would require political will. Thus, whatever the economic and social arguments might be, the issue of protectionism requires political solution.

CONCLUDING REMARK

In discussing current international economic issues, seen from the context of the historical development that was shaping the current international economic environment, one could not escape from considering the fact that there may have been a trend for the secular decline in world economic growth and trade. The decline in the rates of economic growth may have partly accounted for the slower growth in world trade; on the other hand, it may have been possible also that the latter caused the former. Whatever the case may be, issues of protectionism, debt, and monetary instability could not be separated from, and may have been a reflection of, the tendency for the secular decline in world economic growth and trade.

While economic forces have been at work, both the current international economic environment and the current international economic issues seem to have been affected by policy-induced developments. Furthermore, both are related, and the issues themselves may have been inter-related. Thus, for example, monetary instability may have caused the issues of debt and protectionism to arise; or protectionism may have aggravated monetary instability and the debt issue; or the debt issue may have contributed to monetary instability; etc. Thus, and in so far as the political factors have in fact been the major determinant for shaping the nature of the current international economic issues, the resolution of the issues could have become intractable without political solution.

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door. In the more optimistic case that the developing countries could make inroads into the US, they would perhaps be competing less with American rather than Japanese firms. See "Japan's Trade Success Won't Be Matched," *The Asian Wall Street Journal*, February 13, 1985.

The ASEAN Private Sector: Some Remarks

J. PANGLAYKIM

INTRODUCTION

We intend to discuss the role played and the challenges faced by ASEAN's private sector as partners of development in the national economies. It will basically be the view of a business practitioner. This aspect of ASEAN's private sector has not been given the required attention by many of the writer's writing about various aspects of ASEAN.

It seems that the discussion about ASEAN will have to be around the macro-economic and political co-operation, and it seems also that ASEAN is the concern of government officials. In reality, the ASEAN perception has penetrated many walks of life from parliamentarians to tourists, lawyers, accountants, sportsmen, etc., and lately the ASEAN private sector has also been active in promoting a number of projects of co-operation among the various private groupings in ASEAN. Efforts to set up co-operative bodies like the ASEAN Chamber of Commerce and an ASEAN General Trading Firm are also noticeable. Another achievement is the ASEAN Bankers Council, which in 1981 formed the ASEAN Finance Corporation, in which all ASEAN bankers (including foreign banks operating in ASEAN) have become shareholders. Other efforts to set up co-operative bodies include those concerning such private groupings as ASEAN shipowners and real estate developers.

It is our intention to discuss the role played by ASEAN's private sector in enhancing ASEAN's co-operative spirit and also to discuss ahead some of the

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DEMOGRAPHIC AND ECONOMIC STATISTICS FOR ASEAN AND OTHER ASIAN COUNTRIES (1983)

	Population	Area	Density	GNP (1982)		Average Annual Growth Rate	International Reserves[b]	Foreign Trade (US$ million)	
	(millions)	(1,000 km^2)	(population per km^2)	(US$ billion)	Per Capita (US$)	(Real) 1978–1982	(US$ million)	Exports (fob)	Imports (cif)
Japan	*119.26*	*378*	*316*	*1,063.1*	*8,975*	*4.5%*	*24,496*	*145,468*	*114,014*
Korea, Rep. of	39.95	98	408	68.2	1,734	6.7[e]	2,462	24,400	26,196
Taiwan	18.73	36	520	45.8	2,483	7.3	13,331[f]	25,100	20,319
Hong Kong	5.31	1	5,310	26.0	4,962	9.6	-	22,095	24,122
ASEAN[a]	*275.12*	*3,050*	*90*	-	-	-	-	-	-
Indonesia	156.67[c]	1,905	82[c]	90.2	575	6.8	4,902[g]	22,293[c]	16,859[c]
Philippines	51.96	300	173	38.9[d]	785[d]	5.4[e]	896	4,968[c]	8,272[c]
Thailand	49.46	514	96	37.3	770	6.5	2,555	6,945[c]	8,549[c]
Malaysia	14.53[c]	330	44[c]	25.9	1,780	6.9	5,086[f]	12,043[c]	12,410[c]
Singapore	2.50	0.6	4,303	14.7	5,877	9.0	9,039[h]	21,843	28,161

[a] Association of Southeast Asian Nations. [b] End 1983. [c] 1982. [d] 1981. [e] 1978-1981. [f] End of November 1983.

[g] End of October 1983. [h] End of September 1983.

Source: *Japan, An International Comparison*, 1984, Keizai Koho Center, p. 15, quoting Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, April 1984; U.N., *Demographic Yearbook*, 1981; Bank of Japan, *Comparative International Statistics*, 1984; Official Country Statistics.

challenges to be faced by it. We will also elaborate on the increasing capability and capacity of ASEAN as a result of the fast-growing national economies, although the long-lasting recession among the industrial countries has affected ASEAN's private sector. However, before we discuss the various aspects of ASEAN's private sector, let us deliberate upon some of ASEAN's features in order to have a better understanding and feeling of the region.

DEMOGRAPHIC AND ECONOMIC INDICATORS FOR ASEAN

Table 1 shows some of the demographic and economic statistics such as the Average Annual Growth Rate, GNP (including Per Capita Income), International Reserves, and Volume of Foreign Trade.

a. Per Capita Income

Singapore has the highest per capita income with the lowest population. Hong Kong's per capita income in 1982 was US$4,962, Japan US$8,475, South Korea US$2,483, and Taiwan US$1,734. Compared to that of the other NICs, Singapore's per capita income is still high. And compared to the other ASEAN countries, Indonesia with the highest population has the lowest per capita income.

b. International Reserves

It may be instructive to note here that the quoted figure of Indonesia's international reserves constitutes only those reserves held by the central bank, while almost the same amount of reserves is in the hands of the state-owned commercial banks. If this is included, Indonesia's international reserves should be approximately US$10 billion.

ASEAN'S OUTLOOK

At the beginning, some of the ASEAN countries were inclined to be inward looking insofar as the import substitution approach is concerned. But at present all the ASEAN countries have opted for an open economic or export oriented approach. This means that ASEAN has become part of the interdependent world economy.

ASEAN's export of primary commodities constitute 70 per cent of its total volume of export, while its imports of manufacturing goods are still about 60 per cent of the total.[1]

Some of the ASEAN countries are now at the juncture of changing their commodity composition while at the same time trying to change their pattern of trade. Indonesia, in particular, will have to accelerate its industrialisation process which is tantamount to changing its pattern of trade. From being a supplier of unprocessed raw materials, Indonesia is preparing itself to become a supplier of industrial raw materials and gradually expand and develop its manufacturing industries towards becoming export oriented. All the other ASEAN countries will have the same export-oriented outlook and will have to learn to see the world as their market.

If ASEAN countries succeed in changing their foreign trade patterns, they will have to face a number of obstacles, such as:

a. Access to the industrial markets which might mean Japan, the United States, and perhaps Australia and Western Europe.

b. Both the ASEAN countries and the NICs will also aim at the same markets.

c. To succeed in penetrating these markets, ASEAN countries will have to re-organised or regroup their own private sectors and at the same time organise and develop their business infrastructures in a much more sophisticated way. This include their general trading firms, transportation facilities, banking services, etc., which are partly the responsibility and task of their private sectors.

d. Apart from all these constraints, one of the most difficult problems to overcome is the protective measures adopted by industrialised countries, of which the non-tariff barriers act as a deterrent factor in international business. Other trade-barriers like OMAS, quotas, and tariffs for processed raw materials are also seen as inhibiting access to these markets.

ASEAN'S CHANGING TRADE PATTERN

As can be seen from Table 2, ASEAN's trade pattern is dominated by the export of primary commodities. About 70 per cent of its export trade, with the exception of that of Singapore, is still in primary commodities, while 60 per cent of its import trade consists of manufacturing products.[2] Although statis-

[1]See Hadi Soesastro, "ASEAN and North-South Trade Issues," *Indonesian Quarterly*, vol. XI, no. 3 (July 1983), p. 59.

[2]See Hadi Soesastro, *ibid*.

Table 2

PRINCIPAL COMMODITY EXPORTS OF ASEAN COUNTRIES (per cent of total exports)

	1966-70 av.	1970-72 av.	1972-74 av.	1974-76 av.	1976-78 av.	1978-80 av.
Indonesia						
Petroleum	38.4	45.8	57.2	71.7	67.1	59.8
Jungle wood	6.1[a]	11.5	13.3	8.6	8.8	9.4
Rubber	24.6	15.4	9.8	5.9	5.9	5.8
Malaysia						
Rubber	35.8	29.7	29.7	24.4	22.2	18.7
Palm oil	3.5	6.7	8.1	11.3	10.7	10.1
Tin	19.8	18.9	15.4	13.1	11.5	10.1
Logs and timber	15.3	17.0	18.0	14.9	16.1	15.5
Petroleum	3.5	5.4	5.0	9.6	13.2	18.1
Philippines						
Sugar	16.9	18.5	20.3	22.8	12.7	7.2
Coconut products	25.4	21.3	20.3	20.5	22.9	20.6
Copper	12.2	17.0	15.5	11.0	8.6	8.8
Wood	25.2	20.1	14.0	9.1	9.2	9.0
Singapore						
Petroleum products	24.8	24.6	26.5	32.3	29.1	30.7
Rubber	24.1	18.6	15.5	12.3	11.3	9.5
Thailand						
Rice	25.2	17.8	16.8	15.6	15.2	13.9
Corn	11.7	11.9	10.2	11.4	6.3	5.2
Sugar	0.4	2.8	5.6	10.5	8.9	3.8
Tapioca products	5.9	7.5	7.5	10.1	12.1	11.1
Rubber	14.2	11.5	10.9	8.8	9.0	10.1
Tin	11.1	9.2	6.6	5.4	6.7	8.6

Source: Hadi Soesastro, "ASEAN and North-South Trade Issues," *Indonesian Quarterly*, vol. XI, no. 3 (July 1983), p. 81.

tical figures are still around the years 1980 to 1982, I presume that they have not changed drastically.

Principal Primary Commodities

From Table 2 it will be observed that most of the ASEAN countries have to rely on the export of a limited number of primary products. Indonesia's exports of primary commodities are petroleum, logs (forest timber), and rubber, which comprise about 75 per cent of its total export. This might have changed in the years 1983/1984, when logs had more or less been replaced by plywood.

Malaysia's main primary commodities are rubber, palmoil, tin, logs/timber, and petroleum. These five commodities cover approximately 70 per cent of its total exports. In the case of the Philippines, these are sugar, coconut products, copper, and wood which accounted for about 46 per cent of its total exports during the 1978-1980 period.

Thailand seems to have been more successful in creating new primary products, and its exports of rice, corn, sugar, tapioca, rubber, and tin which account for 53 per cent of its exports trade. Petroleum products and processed rubber constitute 40 per cent of Singapore's total export. In the case of the latter commodity, Singapore imports their rubber from Indonesia, Malaysia, and Thailand which it processes into processed rubber, but this trend seems now to be on the decline.[3]

Regarding export primary commodities, it is obvious that these products are very much dependent upon the stage of activity of the traditional manufacturing sector in industrialised countries. Traditionally countries in Asia, and in particular ASEAN countries, have been "structured" to become the suppliers of primary commodities by the industrialised countries which position they have maintained until now. It will be observed that the long recession, which has affected the traditional manufacturing sector, has a profound impact on the export of primary commodities. While the traditional manufacturing sectors in industrialised countries are undergoing structural adjustments because some of them have more or less been declared as structurally depressed, ASEAN countries seem to be continuing with the production of these primary commodities for export. The structural changes and structural adjustments in industrialised countries should make us aware that the demand for these primary commodities is on the decline. We may perhaps observe a gradual change in the demand structure of raw materials. If this is true ASEAN countries have to change their production and trade patterns. They have to start accelerating their industrialisation programmes. As cited before, ASEAN countries will have to produce industrial raw materials and manufacturing products. This might also mean that ASEAN countries should have to adopt an export strategy much similar to that of the other NICs.

From Table 3, it will be observed that some ASEAN countries have managed to increase their export of manufacturing products. It appears that being the most advanced in this sector, is Singapore which has advanced to around 47 per cent, followed by Thailand with around 33 per cent, Malaysia with 28.5 per cent, the Philippines 23.4 per cent (this percentage might have gone down during 1984), and Indonesia with only 4.6 per cent. This means

[3]The figures have been cited from Hadi Soesastro, *ibid.*

Table 3

COMPOSITION OF EXPORTS OF ASEAN COUNTRY BY BROAD CATEGORIES
(per cent of total)

	1970-72 av.	1972-74 av.	1974-76 av.	1976-78 av.	1978-80 av.
Indonesia					
Food, Beverages & Tobacco	14.1	9.6	6.2	8.9	7.8
Raw-Materials excl. Fuels	41.2	28.7	19.1	18.8	18.9
Fuels	41.3	57.2	71.8	69.0	68.6
Manufactured Goods	3.0	4.2	2.8	3.3	4.6
Malaysia					
Food, Beverages & Tobacco	6.9	6.5	6.1	5.7	4.5
Raw-Materials excl. Fuels	56.9	58.8	53.8	51.8	47.7
Fuels	8.2	6.9	11.3	14.2	19.0
Manufactured Goods	27.0	27.0	28.3	27.8	28.5
Philippines					
Food, Beverages & Tobacco	29.9	32.0	36.0	28.0	21.7
Raw-Materials excl. Fuels	60.3	54.1	42.7	40.9	40.3
Fuels	1.6	0.9	1.2	0.7	0.5
Manufactured Goods	8.1	10.3	13.7	20.0	23.4
Singapore					
Food, Beverages & Tobacco	11.4	7.8	6.5	6.7	6.0
Raw-Materials excl. Fuels	26.7	22.5	17.8	17.8	16.1
Fuels	24.5	25.5	31.8	29.4	25.8
Manufactured Goods	34.2	42.1	42.3	44.6	46.8
Thailand					
Food, Beverages & Tobacco	50.2	50.9	59.0	55.9	47.8
Raw-Materials excl. Fuels	25.5	22.2	16.6	15.4	15.4
Fuels	1.0	1.1	0.5	0.1	0.3
Manufactured Goods	17.1	20.6	21.1	25.9	32.9

Source: IMF, *International Financial Statistics*, Supplement on Trade Statistics, Supplement Series No. 4, 1982.

that Indonesia is the most underdeveloped insofar as the export of manufacturing products is concerned, which means also that the concept of accelerating its industrialisation programme seems to be much more urgent, especially if we look for instance, 20 or 25 years ahead when its oil resources will be decreasing drastically.

According to the same author, Hadi Soesastro, if we take into account the "import shares of manufactured products," we will observe a general and overall decline in the import of manufacturing products to the ASEAN region, with the exception of Malaysia. Table 4, for instance, shows that Indonesia's import of manufacturing products during 1970-1972, was 84.3 per cent, but it

Table 4

COMPOSITION OF IMPORTS OF ASEAN COUNTRIES BY BROAD CATEGORIES
(per cent of total)

	1970-72 av.	1972-74 av.	1974-76 av.	1976-78 av.	1978-80 av.
Indonesia					
Food, Beverages & Tobacco	11.2	11.6	13.8	15.3	14.3
Raw-Materials excl. Fuels	2.0	2.8	3.4	4.3	5.2
Fuels	2.3	3.1	6.0	9.5	16.5
Manufactured Goods	84.3	82.4	76.8	70.8	68.1
Malaysia					
Food, Beverages & Tobacco	19.7	18.9	16.9	16.0	13.4
Raw-Materials excl. Fuels	7.3	6.6	6.2	5.8	5.1
Fuels	11.1	8.3	11.9	12.3	12.7
Manufactured Goods	60.5	65.1	64.3	65.2	68.2
Philippines					
Food, Beverages & Tobacco	12.9	13.0	10.2	8.8	7.4
Raw-Materials excl. Fuels	6.4	6.0	4.6	5.0	4.8
Fuels	12.6	15.3	21.6	23.0	23.9
Manufactured Goods	67.7	63.0	57.7	54.8	53.6
Singapore					
Food, Beverages & Tobacco	13.0	10.4	8.7	8.6	7.1
Raw-Materials excl. Fuels	11.6	11.2	9.3	10.4	9.7
Fuels	14.1	17.1	25.3	25.6	25.9
Manufactured Goods	59.0	59.7	55.4	54.0	56.0
Thailand					
Food, Beverages & Tobacco	5.6	4.7	4.1	4.2	4.0
Raw-Materials excl. Fuels	6.3	7.5	6.8	7.3	6.9
Fuels	9.8	13.8	21.6	22.3	24.7
Manufactured Goods	73.6	70.4	65.3	63.1	59.5

Source: Hadi Soesastro, *ibid.*

declined to 68.1 per cent in 1978-1980. The same trend can be observed in the case of the Philippines, Singapore, and Thailand. This might perhaps be the result of the implementation of the ASEAN import substitution programme.

ASEAN TRADING PARTNERS

As indicated earlier, ASEAN countries (perhaps with the exception of Singapore) have always been the main suppliers of raw materials to industrialised countries. If for a number of years (perhaps of the post-colonial era), Western Europe was the main market for these raw materials, during the last 15 or 20 years the market has shifted to Japan and the United States. This was seen as logical, because these two countries have increased their investments in the raw material-based countries. As a result of the increased investments in this sector, raw materials have automatically been directed to these two countries. Western Europe, as the main buyer of these raw materials, has fallen behind because their investment in these resource-based industries has not increased, except for that made during the colonial era with some probably directed toward expanding some of their operations.

Approximately 60 per cent of ASEAN's trade went into industrialised countries as shown in Table 5.[4] There are, however, some differences among ASEAN countries. For Indonesia and the Philippines the percentage seems to be around 75 per cent, while it is less than 60 per cent for the other ASEAN countries, like Thailand and Malaysia, and only 40 per cent for Singapore. Singapore's trade with Indonesia and Malaysia, as part of its entreport trade, is very substantial. The order of importance of the three industrialised countries also differ among ASEAN countries. For Indonesia, it seems that Japan is high on the list with 50 per cent in 1950. This is a consequence of its increased investment in Indonesia. In terms of foreign direct investment to ASEAN countries, Japan's investment of US$7,641 million in Indonesia is the highest among ASEAN countries. The share of the United States was 20 per cent in 1980, while that of Western European countries, a meager 6 per cent. For Malaysia, it was respectively 23 per cent, 16 per cent, and 17 per cent. Perhaps the fact that in 1980 some of the plantations were still under British management might explain why trade with Eastern Europe is still high for Malaysia.

In the case of Thailand, it was Eastern Europe. Perhaps the explanation might be that a number of foreign investors from Indonesia went to Thailand to invest in new commodities such as tapioca and rubber. These are mainly from the Netherlands and West Germany. Because of investment in the earlier years of the 1970s, such as export of feedmillet went in big quantities to Western Europe. This might have changed when EEC countries have levied

[4]Hadi Soesastro, *ibid*.

Table 5

ASEAN COUNTRIES' EXPORTS TO INDUSTRIAL MARKET ECONOMIES

(million US$)

		World (1)	Industrial Countries (2)	Japan (3)	US (4)	EC (5)	(2)/(1)	(3)/(1)	(4)/(1)	(5)/(1)	[(3)+(4)+(5)]/(1)
Indonesia	*1971*	1,234	919	550	192	176	74.5	44.6	15.6	14.3	74.4
(% of total ASEAN)		(18.8)	(23.9)	(35.0)	(16.4)	(17.7)					
	1980	21,909	17,002	10.793	4,303	1,391	77.6	49.3	19.6	6.3	75.3
(% of total ASEAN)		(32.9)	(41.9)	(60.5)	(38.2)	(16.1)					
Malaysia	*1971*	1,639	856	299	208	300	52.2	18.2	12.7	18.3	49.2
(% of total ASEAN)		(24.9)	(22.2)	(19.0)	(17.8)	(30.2)					
	1980	12,960	7,712	2,958	2,119	2,193	59.5	22.8	16.4	16.9	56.1
(% of total ASEAN)		(19.5)	(19.0)	(16.6)	(18.8)	(25.4)					
Philippines	*1971*	1,121	997	391	453	138	88.9	34.9	40.4	12.3	87.6
(% of total ASEAN)		(17.0)	(25.9)	(24.9)	(38.8)	(13.9)					
	1980	5.790	4,350	1,540	1,594	984	75.1	26.6	27.5	17.0	71.1
(% of total ASEAN)		(8.7)	(10.7)	(8.6)	(14.2)	(11.4)					
Singapore	*1971*	1,755	595	124	207	230	33.9	7.1	11.8	13.1	32.0
(% of total ASEAN)		(26.7)	(15.5)	(7.9)	(17.7)	(23.1)					
	1980	19,377	7,801	1,560	2,424	2,377	40.3	8.1	12.5	12.3	32.9
(% of total ASEAN)		(29.1)	(19.2)	(8.7)	(21.5)	(27.6)					
Thailand	*1971*	828	481	206	109	150	58.1	24.9	13.2	18.1	56.2
(% of total ASEAN)		(12.6)	(12.5)	(13.1)	(9.3)	(15.1)					
	1980	6.501	3,759	982	823	1,674	57.8	15.1	12.7	25.7	53.6
(% of total ASEAN)		(9.8)	(9.3)	(5.5)	(7.3)	(19.4)					
ASEAN	1971	6,577	3,848	1,570	1,169	994	58.5	23.9	17.8	15.1	56.8
	1980	66.537	40,624	17,833	11,263	8,619	61.1	26.8	16.9	13.0	56.7

taxes on the import of feedmillet from developing countries which has affected Thailand.

As will be observed, the importance of the three industrialised countries or groupings seems to be interrelated with their investment pattern in various ASEAN countries. As indicated earlier, when the Dutch and British have invested heavily and exploited the resources of Malaysia and Indonesia, Western Europe was important. As Indonesia has nationalised Dutch plantations, etc., and Japan has started to invest heavily in Indonesia, a shift of the direction of trade was inevitable. It took Malaysia longer to "call" on these enterprises, which were still managed and owned by their London managers, to come home. It was only in the last two years that this coming home of the big groups of plantations like Guthrie, Dunlop, and Harrisons and Crossfield was implemented through the purchase of their majority shares on the London stock exchange. Although this was done according to the international rules of the game of acquisition, the Malaysian policy is still being criticised by some groupings in the London business community.

Japan's increased investment in the resource-based industries and the manufacturing sector in the ASEAN region, has resulted in the increase of trade with Japan and in the decrease of that with Eastern Europe. This trend seems to be inevitable because of the interlink between investment and trade. It is interesting to note, however that the Japanese pattern of investment has changed again in favour of investments to industrialised countries, particularly to the United States (see Table 6). This means that Japanese investors have moved away from resource-based industries although they are still active in investment of, for instance LNG. Investment in industrialised countries, particularly in the United States, should be seen as part of maintaining its share of the American market. Perhaps another important point, which has never been especially mentioned, is that which concerns investments in some of the high technological industries, thus resulting in the acquisition of the technologies in question. This might be another legal way of acquiring the badly needed access to high technological industries in the United States. This was also done by some of those big South Korean conglomerates. Through joint ventures with groupings in the United States in the field of sophisticated technology, the hope is that they will be able to acquire some of the technological know-how and also at the same time to have continuous access to the technological market.

ASEAN COUNTRIES FACING A CHANGING PATTERN

Many of ASEAN countries will have to adopt an export strategy, whereby the export of manufacturing products will be the inevitable road to be taken by

Table 6

JAPAN'S DIRECT OVERSEAS INVESTMENT BY COUNTRY

(As of March 31, 1984)

	No of Cases	Amount[a] (US$ million)
USA	10,846	16,535
Indonesia	1,237	7,641
Brazil	1,244	3,955
Panama	1,477	3,245
Australia	1,067	3,048
UK	895	2,448
Hong Kong	2,180	2,387
Liberia	537	2,015
Singapore	1,557	1,705
Korea, Rep. of	1,150	1,442
Canada	632	1,391
Saudi Arabia/Kuwait	4	1,179
Mexico	220	1,164
Iran	108	1,003
Total	31,814	61,276

[a] Figures are the accumulated value of approvals and notification.

all of them. It means that it is the policy of the ASEAN economic management to encourage and expand its export-oriented industries. In these export-oriented industries the private sector has to play a role, and it will not only be confined to the national private sector, but foreign investors as well will also be given the opportunity to take part in the implementation of the export strategy. If this assumption of export strategy is valid and is seen as a possible engine of growth, the implementation of export strategy will be the next step in which ASEAN countries should concentrate insofar as it concerns the mobilisation and combining of all their strengths and forces. As part of these national strengths, the respective national private sectors will have to play their respective roles.

Table 6 (continued)

JAPAN'S DIRECT OVERSEAS INVESTMENT BY REGION AND INDUSTRY (AS OF MARCH 31, 1984)

	North America		Latin America		Asia		Middle East		Europe		Oceania and Africa		Total	
	No of Cases	Amount (US$ million)	No of Cases	Amount (US$ million)	No of Cases	Amount (US$ million)	No of Cases	Amount (US$ million)	No of Cases	Amount (US$ million)	No of Cases	Amount (US$ million)	No of Cases	Amount (US$ million)
Iron & Nonferrous Metals	112	534	85	1,297	539	1,550	10	59	299	206	125	441	1,170	4,087
Chemicals	166	473	119	547	703	1,197	21	1,096	76	199	26	115	1,111	3,626
Electrical Machinery	345	1,509	114	291	912	688	5	12	99	294	18	29	1,493	2,824
Transportation Equipment	67	818	47	610	203	475	6	4	20	149	17	253	360	2,309
Textiles	124	227	146	390	659	1,134	3	4	98	170	58	45	1,088	1,969
General Machinery	324	451	115	334	579	441	6	11	123	164	22	33	1,169	1,434
Lumber & Pulp	76	500	40	190	270	179	-	-	1	0	78	123	465	991
Manufacturing, total	*1,926*	*5,241*	*868*	*3,924*	*5,291*	*6,540*	*69*	*1,225*	*865*	*1,428*	*452*	*1,185*	*9,471*	*19,542*
Mining	219	846	136	1,421	175	5,612	9	39	9	859	329	1,896	877	10,673
Commerce	4,631	6,025	498	698	1,852	776	55	14	1,534	1,660	438	474	9,008	9,646
Finance & Insurance	142	2,122	97	569	193	403	17	66	204	1,720	45	90	698	4,969
Services	745	675	147	382	581	1,458	14	4	106	130	156	690	1,749	3,340
Total	11,478	17,926	3,924	10,730	10,170	16,399	295	2,654	3,338	7,136	2,609	6,431	31,814	61,276

Source: *Japan, An International Comparison*, 1984, Keizai Koho Center, p. 55-56.

ASEAN PRIVATE SECTOR

The various countries, which succeed in developing their national economies, seem to have done this through the proper role played by their private sectors and entrepreneurialship of a number of strong-willed individuals. We have seen this happening in the United States and before that in many of the Western Europcan countries. This man-made success or man-made miracle was first to be observed in Japan and then in South Korea. In all the business developments until they have contributed to the overall success of the national economy, the private sector has been playing a dominant role in implementing the set of policies formulated by the government. Depending upon the political and economic systems of the various countries, we have seen the role played by the various governments and also the degree, quality, and frequency of government intervention. But in general it is inevitable for the government to intervene in the running and management of the national business. This may be less discernable in the United States or Western Europe, although the degree of government penetration has also increased in these countries. Whenever the private sector is facing difficulties in competing with the outside world, it is inclined to invite government intervention in order to protect them. Probably in times of boom it will try to push the government away from it, but once the government has intervened, even in the United States and Western Europe, it will be difficult to ignore the government power. In the recently man-made success economies, such as of Japan and South Korea, the government sector at the beginning of the countries' rehabilitation and build-up or development has been the guiding and promoting agency. Agencies like the MITI and Ministry of Finance and the similar counterparts in South Korea have played an important role in facilitating and initiating the private sector to develop its business. As conglomerates like the *sogo shosha* (Mitsui, Mitsubishi, Toyota, Marubeni, etc.) and *chaebul* (Daewoo, Samsung, Ssangyong, etc.), have become big conglomerates and world traders, those government agencies have become less and less powerful. This big conglomerates which have become friends and have intimate relations with a great number of international financial institutions, have access to international capital and money markets and become global traders, etc., which means that they have become less dependent on government intervention or guidance.

The private and government sectors in the ASEAN region seems to have looked into this relationship and the experience of these two man-made miracles which seems to be in the mind of a number of ASEAN entrepreneurs as wcll as top leaders of ASEAN countries. We have observed the different roles playcd and intervention madc by the government sector as well as the role played by, and given to, the privatc sector. Wc have obscrved not only the degree of intervention and pencrtration but also the various roles played by the

private sector in operating the different business and economic activities. It is not intended to discuss in depth the role played by and the interrelationship between the government and private sectors. We will only be able to come up with some limited observation, selecting a number of ASEAN countries, perhaps with some evidences and some noted trends.

We have observed that in the Malaysian banking sector, which was at the beginning very much dominated by the private sector, the share of the different groups in the private sector have changed hands and the state-owned enterprises have become the major shareholders of the top five banks in Malaysia. It is also noted that many of the big corporations once owned by the British have changed hands, and it seems that many of these enterprises have been bought by state-owned enterprises. They have more or less become state-owned enterprises such as Sime Derby, Guthrie, and Dunlop. Although this seems to be the trend, the present government is implementing its Fourth Malaysian Plan (1981-1985) with a high public debt of M$57 billion, of which 35 per cent is due to foreign creditors. This means that around M$5.4 billion or 25 per cent of the budget "operating expenditure" will have to be apportioned to pay back this debt.[5] This also means that in implementing the targets set out by the Malaysian Five-Year Plan, the private sector will have to be invited to play a bigger role. It seems that the present administration has been very vocal and determined to give or sell some of the state-owned enterprises to be managed by the private sector. But again here it is implementation of the decision by high ranking officers and officials at the middle level of the bureaucracy that may have a different perception of what has been decided.

The present administration in Malaysia is also very active in promoting the establishment of groupings aimed at developing the general trading firm concept. Various combinations between government and private grouping have been formed to set up a general trading type of corporations. Reactions to this concept have been mixed. Academicians do not seem to be in favour of this big general trading type of corporations, because they prefer the present export companies and to allow them to re-organise themselves instead of "forcing new combinations" which in reality is expected not to operate effectively.

It seems, however, that government intervention has been found increasing, although the role apportioned to the private sector has also been growing. Perhaps what we will observe is that for certain big ventures the concept of joint venture between state-owned enterprises and various groupings of the private sector will be found to be more and more acceptable than the purely private operated conglomerates. We may be wrong in our judgement and observation, which means that we are open for correction. Perhaps the

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[5] *Straits Times*, October 27, 1984.

case of Thailand might be different as we look it from our state of knowledge of the role played by the private sector there. From what we know, the banking industry of Thailand is now still being dominated by privately owned banks like the Bangkok Bank, while the many private groupings in the agro-business and industrial sectors are predominantly in the hands of private entrepreneurs. It is also known that an ex-prominent private businessman has been appointed Minister of State attached to the Prime Minister's Office in order to look for ways and means on how to promote the private business sector. The state-owned enterprises seem to be operating more in the sector of public utilities such as telecommunications, etc. Government intervention is also there, but it seems that the private sector has come to a kind of working relationship with the bureaucracy. These technocrats appear to have supported the export strategy of Thailand in trying to diversify its range of products in which it has succeeded (see the list of primary commodities for export which has been increased substantially compared to that of other ASEAN countries).

The Philippines private sector seems to have changed its ownership pattern under the Marcos Administration. The old traditional business groupings have apparently been pushed out of the main stream of business. The only surviving old traditional grouping is the Soriano/San Miguel Group. But with the death of Soriano Senior, control has passed over to one of the new groupings under E.M. Cojuangco who is seen as having a close relationship with the people in power. However, a number of these new groupings who have become very prominent and dominant in a number of business activities appear to have collapsed leaving the government of the Philippines with no other alternative but to come to rescue them. This was rather costly, and it is now known that many of the once privately owned enterprise (owned by those groups considered to be close to the power centre) are now in the hands of the government banks or agencies. Although this is the case, the private sector seems to be still quite strong notwithstanding that many of the big privately owned banks seem to have been in trouble lately. Their urge to expand to other places in ASEAN was at one stage very feasible, but it is now practically stopped. The San Miguel Group has been very active in branching out to the region. Services such as the SGV Group have expanded to all ASEAN countries, although less successful are the other Philippines consultant companies. It seems that the private sector in the Philippines has become a force in the political development of the Philippines. At present we estimate that government intervention in the Philippines has increased compared to a couple of years ago. This is probably a consequence of the economic difficulties faced by the present administration and the still unsettled discussion with the IMF, although there are some encouraging signals from this international body.[6] It is also worth noting

[6]IMF and the Philippines government have come to an agreement beginning of November 1984.

here that the present administration has appointed a well-known private banker as the present governor of the central bank. We have not seen this happening in other ASEAN countries, although we should also note that Prime Minister Mahathir has appointed a private businessman as his Minister of Finance.

Singapore is seen by many of us as the most privately run economy. Many of the big groupings, such as OCBC, UOB, and OUB, are known throughout the region. But it should also be noted here that of equal importance are the state-owned and jointly run corporations. The Singapore government has been able to come quietly in the big league of business like the Development Bank of Singapore, while in the trade sector there is Intraco (combined with private interest), a shipping and holding company, and also a special corporation (holding company) to manage the international reserves of Singapore (chaired by the Prime Minister).

In other words, the privately owned and government-owned enterprises are of equal importance in the management of the Singapore economy and here government intervention is definitely present, but probably in a much more subtle way of operation. The Singapore International Airways, as the national flag carrier, can be seen as becoming an international company, and the development of Singapore as a financial centre and also as a brainpower centre might also be seen as part of the role played by the national private sector. In developing this concept of financial and brain power centres, however, the Singapore government has been the promoter and initiator and has given the required facilities to those in the private sector willing to implement this concept. Thus in this case the role of the government has been a very active one.

Indonesia had decided in 1966 to nationalise all Dutch enterprises, including a number of big banks, hundreds of plantations (rubber, palm oil, etc.), shipping companies, trading houses, insurance companies, industrial units, etc., which were considered at that time as controlling about 75 per cent of the Indonesian economy. As a consequence of this take-over exercise, the state sector has expanded. At present the banking industry has been dominated by the five state-owned banks, controlling approximately 80 per cent of the credit volume. State-owned enterprises are dominating the agriculture plantation sector where palm oil, rubber, tea, etc., are its main export produce. In the other industries such as cement and fertilisers, state-owned enterprises are very obvious. They have been losing their shares of the market in the trading sector.[7] The so-called general trading houses, which once dominated In-

[7]Some of the state-owned enterprises are given the "monopoly" of importing specified import commodities.

donesia's economy and were taken over by the state, have decreased in importance as the country has changed from a sellers' market into a buyers' market. By allowing foreign as well as domestic investors to invest in the private sector, their shares in the domestic economy have been increasing although the presence of state-owned enterprises are still considered as dominant. Government intervention and other types of government "participation" is much more apparent in Indonesia than in the other ASEAN countries. It is true that in the Fourth Five Year Development Plan the Indonesian government has invited the private sector to give bigger support to the country's develoment because of the decreasing income from oil. The government's capability in terms of financing development projects has diminished. So the private sector has been encouraged to participate more actively. This pledge by the higher echelon of the government bureaucracy appears to have been welcomed and the government technocrats at the top management of the country have been honest in inviting and encouraging the private sector. However, it seems that this is "one current" but the "undercurrent" or the officials in the bureaucracy seem to be reluctant in implementing this change of attitude. Their attitude seems to have been observed by many of the private enterprises which are hoping for a change in attitude and behaviour among these officials. In some sectors the opposite appears to be the case. There are cases assignments to the state-owned enterprises, although they know that these units are performing less efficiently than private-run companies. Therefore many private enterpreneurs seem still to be very acceptable to the change of attitude among those who are entrusted with the implementation. It is our personal view that it will be very difficult for these bureaucrats to change their behaviour because they are still of the opinion that they are civil servants. This means that their job is to instruct and govern and the private sector or the rest has to obey. Although this has never been expressed openly, but from their attitude, policies, guidance, etc., it appears to be a kind of general attitude. This in reality, means that practically all activities of the private sector have become part of the "channels of the bureaucracy," and sometimes some of them have become a mere extention of the complicated and complex bureaucracy.

However, this does not mean that the market and price mechanisms do not operate in the Indonesian economy. Although here and there are "pocket economies" (quasi monopolies established for certain commodities), the majority of these goods, once they have come into the market, are more or less being decided by the price and market mechanism.

Compared to other ASEAN countries, one might conclude that the state-owned enterprises in some business activities in Indonesia appear to have a greater dominating position than that of the private sector. The Indonesian private sector seems to be still at the level of searching for a position which will give them a more challenging role to play.

CAPABILITIES OF THE PRIVATE SECTOR

At the beginning, many of the private groupings have to accept business agreements that are less favourable to them. Fifteen years ago, when ASEAN countries opened up their economies to foreign direct investment, Japanese investors offered the so-called "package deal" principle to us all. It means that the national partner's contribution might be in the form of a working licence along with a piece of land where the factory will eventually have to be established. The Japanese partner provides the joint venture with capital, management, technical knowhow, marketing knowledge, etc. Having the majority share in hand, it is logical that the Japanese partner is practically the real decision maker, although the national partner might officially or nominally become the president of the joint venture. In some countries, joint ventures are allowed to go into the distribution business and by so doing the marketing of the products will also be handed by the joint ventures. In other ASEAN countries, probably the Philippines and Indonesia, the distribution of the products has to be given to national enterprises. This policy seems to be very important for the creation of a more capable private sector. Many of the national partners have managed to organise a distribution network of the products and have therefore been able to take advantage of the growing market of the newly created manufacturing products. Not only have they gained experience in modern marketing methods, but have also been able to start with their capital formation. The last ten years have been very important for the national partners, especially when they succeed in distributing the newly created manufacturing products.

Along with this development, the average high growth rate of the national economy, from the national point of view, has given another impetus to the national private groups. They could take advantage of the growing credit standing of the country in the international capital and money markets. This means that a number of private groupings and corporations in the region have developed business relationships with the international banking community and are also exposed to the possibilities of tapping from the international capital and money markets. Let us have a look, for instance at Table 7. Here we come across a relatively short list of ASEAN enterprises which have gone to the international capital market for funds.

Formerly these corporations were only exposed to one or two national or international banks, but now they are in a position to tap funds from a larger number of sources. This has undoubtedly increascd their capability to raise funds, whenever they embark on feasible business projects. In reality, this means a lot to the private groupings in the region. Thcy are now in a bettcr. position to dismantle the so-callcd "packagc deal" principle. With thc nceded

Table 7

ASEAN TOP 50 (IN TERMS OF ASSETS, PROFITS AND SHAREHOLDERS)
(in US$ million)

Rank	Company	Country	1981 Assets	1981 Profits	Mid-Year 1982	Shareholders
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Bangkok Bank Ltd.	(T)	7,327	48	-	15,916
2.	The Development Bank of Singapore Ltd.	(S)	5,241[a]	50.6	24.8	6,586
3.	United Overseas Bank Ltd.	(S)	4,499[c]	61.5	-	17,565
4.	Oversea-Chinese Banking Corp. Ltd.	(S)	3,488[c]	54.2	27.9	14,000
5.	Malayan Banking Bhd.	(M)	3,457	26.3	-	2,557
6.	Overseas Union Bank Ltd.	(S)	2,116	24.7	20.6	3,736
7.	Ayala Corp.	(PI)	1,872	18.7	-	3,955
8.	Public Bank Bhd.	(M)	929	5.3	5.1	3,212
9.	Tat Lee Bank Ltd.	(S)	926	8.8	4.6	6,428
10.	Sime Darby Bhd.	(M)	809	41.1[b]	-	39,000
11.	CDCP Inc.	(PI)	770	2.8	-	-
12.	Inchcape Bhd.	(M)	498	14.9	-	11,946
13.	Neptune Orient Lines Ltd.	(S)	489	14.5	4.2	25,000
14.	Hong Leong Finance Ltd.	(S)	443	10	6.7	1,900
15.	Great Eastern Life Assurance Co. Ltd.	(S)	440	4.5	-	-
16.	Industrial & Commercial Bank Ltd.	(S)	421	10.04	8.6	1,234
17.	Keppel Shipyard Ltd.	(S)	402	11.5	14.4	7,905
18.	Straits Steamship Ltd.	(S)	372	9.3	-	2,370
19.	Malayan United Industries Bhd.	(M)	370	20	8.4	4,600
20.	Genting Bhd.	(M)	356	23.1	11.2	14,200
21.	Multi-Purpose Holding Bhd.	(M)	328	5.5	3.2	33,207
22.	Singapore Land Ltd.	(S)	290	2.46	-	2,000
23.	San Miguel Corp.	(PI)	263	34.5	17.9	21,588
24.	Consolidated Plantations Bhd.	(M)	256	22.9	-	22,178
25.	Tractors Malaysia Bhd.	(M)	252	17.5[b]	-	2,400
26.	United Motor Works (M) Holdings Bhd.	(M)	245	8.4	-	5,181
27.	MBF Holdings Bhd.	(M)	239	4.3[b]	-	7,600
28.	Cold Storage Holdings (PLC) Ltd.	(S)	238	9.5	4.4	6,340
29.	K.L. Kepong Bhd.	(M)	234	28.4	-	14,493
30.	Tan Chong Motor Holdings Bhd.	(M)	204	11.3	-	-

Table 7 *(continued)*

31.	Shell Refining Co. (FOM) Bhd.	(M)	203	15.3	-	4,694
32.	Highlands & Lowlands Bhd.	(M)	200	11.3	-	-
33.	Hong Fok Ltd.	(S)	183	2.7	-	11,000
34.	Sembawang Shipyard Ltd.	(S)	180	29.4	-	5,000
35.	SEA Lumber Corp. (Bhd.)	(M)	178	-	-	-
36.	Straits Trading Co. Ltd.	(S)	171	-	2.8	7,900
37.	Supreme Corp. Bhd.	(M)	168	1.5	-	-
38.	Haw Par Brothers Int. Ltd.	(S)	166	10.4	-	12,000
39.	Cycle & Carriage Ltd.	(S)	161	14.1	-	9,692
40.	Singapore Finance Ltd.	(S)	158	3.1	-	2,915
41.	Esso Malaysia Bhd.	(M)	151	12.8	-	8,200
42.	Hong Leong Credit Bhd.	(M)	148	2.3	-	-
43.	Singapore Bus Services Ltd.	(s)	147.8	3.8	2.6	47,000
44.	United Overseas Finance Ltd.	(S)	141	3.8	-	1,599
45.	United Overseas Land Ltd.	(S)	139	4.3	-	6,202
46.	Promet Bhd.	(M)	136	12.2	-	6,000
47.	National Iron & Steel Mills Ltd.	(S)	131	10.3	-	-
47.	Magnum Corp. Bhd.	(M)	131	2.9	5.1	-
48.	United Engineers Ltd.	(S)	130	12.2	-4.2	-
49.	Malaysian Tobacco Co. Bhd.	(M)	128	20.9	-	6,700
49.	Wearne Brothers Ltd.	(S)	128	7.1	2.7	6,318
50.	Philex Mining Corp.	(PI)	123	15.08	-	40,000
	Company returns after compilation date.					
	Benguet Corp.	(PI)	313	23.3	-	23,484
	Atlas Mining & Dev. Corp.	(PI)	55.5	0.45	-	38,672
	Caltex Philippines Inc.	(PI)	390	33.9	-	11

[a]Net current assets [b]1982 [c]Consolidated assets (group)

- The Philippine Long Distance Telephone Co. Inc. reports having 226,817 shareholders and a net income of approx. 25.1 million for the year ended December 31, 1981.
- Table based on information provided by companies.

Source: *Insight,* December 1982.

funds available and accessible to them, they could hire or buy technological manpower in order to enable them to tackle feasible business projects on their own. Only bigger and more sophisticated technological projects would need the assistance of the foreign partners, and here and there in bigger sophisticated projects we might still observe the package deals offered to state-owned enterprises. In the field of computers, we will have to accept a different arrangement because of the needed technological know-how which is still scarce in ASEAN countries. This might be even the case with Singapore which has developed a certain degree of expertise in the computer industry. However, it will be seen that in the traditional and modern manufacturing sectors many of the ASEAN private groupings have developed their capability and capacity to do this on their own strengths and in their own organisation.

Perhaps, as we develop and implement our export strategy, a different kind of arrangement has to be made with those interested in investing in the export-oriented industries. One of the major weaknesses of many of the ASEAN countries is how to market the thousands of new products designed for the export market. How do ASEAN countries reach the hundreds of millions of ultimate consumers all over the world? Will they be able to organise and reach these hundreds of millions of customers through the establishment of their own networks, or through a number of new arrangements with those already experienced in this international marketing network? These are only a couple of fundamental questions that have to be answered by many of the policy-makers in ASEAN, among the private as well as state-owned enterprises. We are aware that these are not simple questions, but they will have to be tackled nationally by all of us who are interested in the development of the country.

DEVELOPMENT OF ASEAN THIRD WORLD NICS

In many areas of business, industry, banking and other service activities a number of ASEAN-based corporations, whether private or state-owned, have developed potentials and activities which will make them the ASEAN Third World MNCs. No serious study has been made by us on these groupings. We are only in a position to mention a couple of them as some kind of indicator of their potentially to grow into "ASEAN Third World MNC's."[8] Perhaps when we make a more detailed study of it, we will discover more groupings with the same potentiality.

If we observe the development of these enterprises in Malaysia, we are of the opinion that some of them may already be qualified to be grouped as ASEAN Big Corporations. These enterprises were originally organised and

[8]See J. Panglaykim, *Emerging Enterprises in the Asia-Pacific Region* (Jakarta: CSIS, 1979).

managed by Western managers mostly British. With the successful acquisition of these enterprises in which the Malaysian enterprises (private or government) have managed to have majority share-holdings, in some cases almost 100 per cent, they seem to have been taken over as well-run organisations. In many of these cases the operational management appears to have been maintained, and only a few at the top layer are not nationals. Corporations like Sime Derby, Harrisons & Crossfield, Guthrie, and Dunlop, are some of the examples. In particular, the Sime Derby organisation has been very active in a number of ASEAN countries and has also expanded its operations to other non-ASEAN countries. It has 200 companies operating in 20 countries. We could consider an organisation such as Sime Derby as developing into an ASEAN international corporation.

The Kuok Brothers Group, another well-run organisation, has developed business in other ASEAN countries, Hong Kong, Australia, the United Kingdom, and perhaps the United States. It has diversified itself into various business activities. This group can be seen as a purely privately run as well as owned group, although it has joined with a number of state-owned companies. It is also one of the important participants in one of the just established general trading firms.

It will be observed that in the banking sector, the rapid development of the Malayan Banking Berhad whose majority shareholding is now in the hands of state enterprises has enabled it to spread its wings into such traditional places as Singapore, Western Europe, the United States, Thailand, perhaps in some other parts of the world.

We have seen in Singapore the development of a number of banks, other private groupings and big state-owned or affiliated companies with the potentiality of becoming ASEAN Third World corporations. As the Singapore financial industry developed into a financial centre, many of the locally oriented banks have reorganised their companies, hired trained experts, and expanded their operations not only regionally but also internationally. Financial groupings like OCBC, UOB, OUB, DBS (a joint venture between the government and foreign banks) diversified themselves to other activities and have under their control a number of other business operations ranging from real estates to manufacturing industries and other business activities. The UOB Group in particular has been very active in the merging process, and it seems to be aiming as a group at becoming the number one corporation. Although probably the youngest among the leading banks, the DBS has been developing very rapidly. These groupings have been active in the business activities of the ASEAN region. They have also expanded their wings to Australia, Tokyo, Hong Kong, London, New York, and the Middle East. As one of the regional

financial and developing brainpower centres, Singapore has "developed" business groupings that could assist other business groupings in the region, which might be in terms of cross investment, consultancy services or other types of services.

Thailand seems to have many more national private groupings that are strong at the national level. Generally they are still considered as family corporations, of which some have gone public. One of the better known private groups in the Bangkok Bank Group, has branches in practically all ASEAN capitals except Manila. This group has diversified its interests and is operating not only regionally, that is, ASEAN-wise, but also expanding its operations to Hong Kong, London, Tokyo, and New York. Pockhand, a group in the feedmillet business, appears to have expanded into the region. It is one of the big feedmillet producers that has developed quite an international network of distributing its products. It is quite substantial, for instance, in Indonesia and Singapore they have joint operations, and may have other joint ventures in other ASEAN countries. It is by far the biggest in this business, and could be considered as operating regionally and internationally.

The Thai Farmers Bank Group is another family business that has expanded internationally and established operations in Tokyo and New York. There may no doubt be other bigger groups that have expanded regionally and internationally. A failure was cited in the *Asian Wall Street Journal* about the Asia Trust Banking (ATB) Group, but it is now taken over by the Central Bank. Once associated with the Bangkok Bank, it went on its own and it seems that the top man who ran the ATB as a personal fiefdom had got into difficulties and was declared bankrupt. His whereabouts are not known. Insofar as the ATB failure is concerned, it is in terms of volume still far bellow that of the Carrian-George Tan Group of Hong Kong. The George Tan case could be considered as the financial failure of the "Century."

As mentioned earlier about the Philippines, the old oligarchical groupings of private enterprises have been pushed aside by the newly developed private groupings which are aligned with the power structure. The provision of special facilities to these private groupings has been responsible for the boosting of their expansions. Of the old oligarchical groupings probably only the Soriano-San Miguel Group and the Ayala Family (Enrique Zobel) Group seem to have survived, although in the end the San Miguel Group is under control of the Cojuangco Group which is very strong, for example, in coconut and banking. The top man, Eduardo M. Cojuangco, is now considered the most powerful man in the business sector of the Philippines. One by one of the other newly boosted private companies seem to have been declared bankrupt and generally, taken over by government agencies, leaving quite an amount of debts to the

new owners. It looks as if at present the number of promising Third World (Philippines) corporation, with the exception of the San Miguel Group, which is operating regionally, with representation in Hong Kong, has shrunk considerably. The San Miguel beer appears to have penetrated the ASEAN market.

A group in the services sector, the SGV Group of accountants and management consultants, seems to have been quite successful in penetrating the ASEAN region. The only "failure" in this category of corporations seem to be the Singapore group of accountants. The interest of this group has been sold to an American group of accountants.

With the present economic difficulties, the Philippines private sector may have to endeavour to survive first before it is in a position to think of expanding regionally.

The Indonesian private sector has also benefitted from the favourable credit standing of the country. We have seen a number of private groupings which have managed to expand their operations not only regionally but also internationally. For example, the Liem Sioe Liong Group is the most active grouping, having expanded into banking, manufacturing, distribution, etc. It has not only a banking and merchant banking corporation in the United States but also a well-known Dutch general trading firm (Hagemeyer) in Singapore and cement plants both in Singapore and Hong Kong. It is by far the most diversified group operating regionally and is now already feasible in the international business scenery.

Perhaps the Astra International Group is also gradually operating in the region with its merchant bank group (Summa Group), trading with the region, and seemingly expanding also its wings in other fields of activity in order to diversify its operations. Its activities in the international business scenery is becoming more feasible, too.

Another grouping, the Ciputra Group, is together with its affiliated companies another example of a growing group of corporations. Sometimes one also fails to mention a quiet group, the Wirontono Group, which has substantial investment in the region and internationally. At one stage the Panin Group also operated in places like Hong Kong, but it seems that it is consolidating its national business before embarking on an expansion of operations in the ASEAN region.

These private groupings and a number of others, which might already be in the regional business, may be considered as potential groupings in Indonesia

which at one stage in the future may be considered as ASEAN NICs. We have given the reader a qualitative approach of those private groupings which are regarded as potential groupings in the ASEAN region or as groupings already in the class of ASEAN Third World MNCs. Perhaps compared to the Japanese and South Korean MNCs, these groupings may still be lagging behind in terms of network, diversification or sophistication, but they have, in fact, started with making themselves counted for in the regional and international business worlds, although in a far modest scale than the giants.

ASEAN PRIVATE SECTOR'S CO-OPERATIVE EFFORTS

At present not a day seems to have passed by without an event indicating ASEAN gathering. Associations and co-operation among ASEAN officials and private groupings have increased tremendously in the last few years. One will see more associations among ASEAN lawyers, accountants, economists, parliamentarians, sportsmen, university professors, and researchers while the number of seminars discussing topics from Vietnam to scientific subjects has also been increasing. All these activities among ASEAN organisations, individuals, and groupings have enhanced ASEAN feeling and perception and have laid a foundation for co-operative efforts which will be very important ingredients for the future. Let us now look into these co-operative efforts initiated by the private business sector.

ASEAN FINANCE CORPORATION (AFC)[9]

The ASEAN Finance Corporation (AFC) is a brain-child of the ASEAN Banking Council (ABC), while the ASEAN Banking Council is the council formed by the ASEAN Bankers Association.

Establishment

Despite the difficulties that have arisen from the different banking laws, regulations, etc., the AFC was formally established in May 1981 with Singapore as its headquarters.

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[9]See Juli Weber, "Low Profile Match Making," *Asia Banking*, October 1984, from which article summary is taken. See also J. Panglaykim, *ASEAN Finance Corporation: Prospects and Challenge* (Vienna: Unido, 1982).

Capitalisation

It is a non-bank financial institution with a paid-up capital of S$100 million (US$46 million), its operations being effectively started only about two years ago.

Objectives

Its activities are centred around four basic objectives, namely: promotion of industrial development, promotion of intra-regional trade, promotion of financial co-operation within ASEAN, and mobilisation of financial resources. It also provides investors with assistance in project evaluation, including advice on financial structuring and loan packaging, implementation of selected financing schemes, initial organisation of projects, and provision of managerial services where necessary.

According to Syed Elias Alhabshi, President and Chief Executive of AFC, the corporation's role is that of a marriage broker inasmuch as it assist as in identifying partners for potential investors, both within and outside ASEAN, so as to promote economic co-operation. There are about 25 projects done now, only 12 of which having drawn up their loans so far. In total about US$60 million is involved, but there are in addition 30 to 40 additional projects applying for assistance and being considered. The commercially viable projects are in the areas of agriculture, manufacturing of consumer goods, agricultural and industrial products, services such as construction and coastal shipping, and trade.

ASEAN CHAMBER OF COMMERCE AND INDUSTRY (ASEAN-CCI)

The ASEAN Chamber of Commerce and Industry has been very active in organising annual meetings among ASEAN Chambers as well as meetings with their counterparts in the EEC, the United States, Japan, etc. Along with the annual meetings they have also organised themselves into industrial clubs and held regular meetings. As far as we know, the Committee on Trade has formally established the ASEAN General Trading Corporations. We say formally because it seems that they have yet to operate. We have some experience in implementing such an ASEAN effort. The problems surrounding the implementation of a formal body into an operational unit are rife because of the different laws, histories, regulations, etc.

The ASEAN-CCI has proposed in October 1983 some form of co-operation such as (i) industrial joint ventures and (ii) industrial complementations. The agreement on Preferential Trading Arrangements (PTA) may enhance the possibility of establishing industrial joint ventures. The PTA may has four important features, namely:

a. Long-term supply contracts for basic commodities encouraging preferential duties and priority supply in times of world-wide shortage.
b. Trade finance at preferential interest rates.
c. Preferential government procurement, each of the ASEAN members issuing pre-tender notices of government contracts to other four with a preferential margin of 2.5 per cent per bid.
d. Tariff preferences on a product-by-product basis (either multilaterally or bilaterally).

SUMMARY

We have given the reader some of the relevant figures in order to have a better understanding of ASEAN's direction of trade, trading partners, commodity pattern of imports and exports.

ASEAN seems to have remained one of the main suppliers of generally unprocessed raw materials. Singapore has always been an exception, since it has always been in the services sector that has made its entrepot trade very prominent along with their financial sector. In terms of commodity pattern, we have seen that the export of manufacturing products has been growing among ASEAN countries, in which Indonesia has still to catch up.

We have also indicated that in the years to come, especially in the post-oil era, countries like Indonesia and Malaysia have to develop and prepare themselves for an all-out export strategy. In reality, this might mean a broadening and deepening of our export-oriented industries. Fundamental changes will have to be made in the institutional set-up which include one general trading firm, a more sophisticated banking industry and a transportation and communication network, etc., and perhaps most important a change in behaviour among those implementing the export strategy. This needs time and perseverance and perhaps also incentives and other types of economic facilities for the private sector. The private sector in all the other successful NICs has entrusted this implementation to the dynamic group of entrepreneurs. The decision faced by a number of ASEAN countries is probably this role played by the private sector. We have seen different types and quali-

ties of government intervention among ASEAN countries. Probably government intervention in Indonesia seems to be very feasible compared to the rest of ASEAN. It appears, however, that government intervention in ASEAN countries is a reality of business life, and one will not do business with the government at one's doorstep. So being a reality of life, the business sector has to come to a productive working arrangement with those in charge of implementing the policies.

In the last fifteen years, ASEAN countries have shown a respectable rate of growth. This has given them a certain degree of credit standing in the international banking community. The private sector has also benefitted from and contributed to, this growth process. They have been able to take advantage of all the opportunities which have arisen from this growth process, and have meanwhile increased their capabilities and combined their strengths in order to expand their business into a variety of business, industrial and other types of activities. Among these groupings are those which can be considered as already operating regionally and internationally. Sime Derby, for instance, has around 200 companies operating in 20 countries. Other upcoming groups in the region and in the international scenery are the Liem Sioe Liong and Astra International Groups. A number of others like the Bangkok Bank Group, Kuok Brothers, etc., can also be cited.

Activities of the ASEAN-CCI and those of the ABC have given the ASEAN business commodity new forms of co-operation. One should, in particular, mention the establishment of the AFC in which all banks, both private and government-owned, have become the AFC's share-holders. The AFC has a joint-set-up called ASEAN Japan Development Corporation (AJDC) of which major Japanese banks/companies has participated. It is now in full operation. One could see the body as the most concrete example of ASEAN co-operation which started with the most vital part of the ASEAN economy, that is, the financial sector. It will be a vital set toward closer financial co-operation if the ASEAN governments allowed *ASEAN bankers* to operate ASEAN wise on a reciprocal bases.

In the years to come, we would see increased cross investment in the ASEAN business community, as the many groupings will develop their business regionally and perhaps, in order to enter the international market, they may start new combinations in the near future. A good example is the ASEAN General Trading Firm. Although it is not operational yet, but we expect that this will eventually materialise.

Pacific Economic Cooperation and Human Resources Development

Ferdy SALIM

INTRODUCTION

Although a turning point seems to have been reached, world economic recession and its impact are still being felt throughout the world, especially in the developing countries.

The gap between the rich industrialised countries and the poor developing countries have in general become deeper and wider with unfortunately no sign of a reversal in the foreseeable future.

Recent developments clearly indicate the growing importance of the Pacific in the world economy. In spite of adverse developments, mainly caused by prolonged recession, this region in which ASEAN is an integral part, has, compared to other regions of the world, shown its resilience. It also has continued to emerge as a major growth-centre, in which interdependence and interaction among the countries of the region have shown an ever-increasing trend and linkage between the economies of ASEAN countries and those of other parts of the region which have significantly grown closer.

There is reason to believe that the twenty-first century will be the age of the Pacific. Already the Pacific region has outstripped the Atlantic in the share of total US foreign trade. As for Japan, over 50 per cent of its total exports are directed towards the countries of the Pacific.

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A conclusion was reached that the main factor causing the very strong economic performance of this Pacific region was -- apart from the great contribution of the strong US recovery -- the so-called Japanese economic miracle creating high demands for minerals, agricultural produce and eventually manufactured finished products -- which for the greater part was supplied by the countries of the Pacific region itself. Another point to be taken into consideration was the exceptionally high performance of the so-called newly industrialised countries -- the NICs such as South Korea, Hong Kong, Taiwan and Singapore, which also constitutes this Pacific region.

The impact of the success of these NICs was the growing confidence among the developing countries -- at least many among them -- that higher stages of development is not beyond reach. This awareness was obviously the driving force behind the efforts of the countries of ASEAN to successfully obtain their improved level of economic growth.

Increased interaction between the countries of this region did not only being about growing intensity in their relations, but at the same time caused continuous structural changes resulting in the realisation of a comparative advantage.

This regions' success is obviously a manifestation of the great potentials in natural and human resources it possesses and further, or above all, the dynamism of its economies it embraces, which constitutes one of its strongest assets.

Developments of these potentials, with a view to accelerate this process of growth will not only benefit the countries of the region, but will spread its positive influence throughout the world in general.

ECONOMIC CO-OPERATION IN THE PACIFIC REGION IN ITS DIFFERENT STAGES

In response, or as a result of these developments, the idea of economic co-operation among countries of the Pacific region was born.

During the last 20 years, different initiatives for Pacific Economic co-operation has undergone continuous evolution and modifications but has always remained the centre of interest, as rapid developments in the region have given rise to an increasing need for regular consultation on common economic problems with the aim of finding solutions beneficial to all parties concerned.

Proposals such as the establishment of PAFTA (Pacific Free Trade Area); OPTAD (Organization for Pacific Trade and Development); PBEC (Pacific Basin Economic Council) and others did not receive the expected response from Indonesia or its ASEAN partners as they have been discussed not only on non-official levels, but also because those establishment were suspected of being a club among the rich, primarily concerned with the developed countries' interest, with the underlying aim of dominating the regions' economic development.

The establishment of a formal mechanism to promote Pacific co-operation as recommended at a Pacific Community Seminar sponsored by Japan's PM Ohira and Australian PM Fraser, and organised by the Australian National University in September 1980, did not receive endorsement from ASEAN countries as well as these countries preferred to maintain an ASEAN first policy, in order not to be diluted into this bigger forum.

ASEAN governments moreover remain sensitive to political aspects of such broader regional co-operations eventhough it is confined to the economic, social and cultural fields. Membership and leadership of this proposed organisation is considered the central problem.

Another initiative in the form of South Korean President Chun Doo Hwan's proposal to have consultations in a summit of Heads of State of different Pacific countries was also deemed not workable as it was expected that the South Korean proposal would immediately become a political issue.

The latest development of this plan of co-operation among Pacific countries was the introduction of a loose form of co-operation in a series of tripartite, consultative, non-formal meetings -- called the Pacific Economic Co-operation Conference (PECC), where business representatives, scholars and government officials, in their private capacity, exchange views on economic topics searching for solutions on the basis of mutual interest. These studies and solutions were to be recommended to the governments of the participants for further consideration and action.

For practical reasons, it was decided that at this initial stage, only a limited number of "market forces" countries was to be invited to participate, also the so-called core-members, consisting of ASEAN countries, South Korea, the Pacific islands and the industrialised countries of the region, namely Australia, Canada, Japan, New Zealand and the USA. All other littoral countries are to participate only in the various Task Forces to be established by the core-members.

Since the objective of the Pacific regional co-operation does not envisage the creation of a political or military alliance, its membership should in principle not be based on ideological considerations. However in view of the present political realities, it may be difficult to apply this principle of non-discrimination; and to make a decision to limit its membership at this initial stage.

In order not to jeopardise its non-aligned position or get involved in any possible East-West Confrontation, ASEAN decided not to participate.

ASEAN-PACIFIC CO-OPERATION (APC)

Aware of the dynamic growth of this Pacific region, however, ASEAN countries decided that it could not afford to stay aloof from developments in this fast growing region, hence developments would get out of hand and might be geared not in the interests of ASEAN and developing countries in the region.

Based among others on these considerations, and with the confidence of unity and solidarity among ASEAN countries, an ASEAN-Pacific Co-operation plan was introduced.

At the Post Ministerial Conference (PMC) of the 17th ASEAN Ministerial Meeting (AMM) in Jakarta in July last year, ASEAN and its dialogue partners, comprising Australia, Canada, Japan, New Zealand and the USA -- the so-called 6+5 countries -- mutually agreed to initiate the ASEAN-Pacific Co-operation (APC) based on a two-tier approach: (1) to exchange views on the general economic trends and developments in the Pacific region; and (2) to identify and develop specific themes for possible co-operation in the region.

It was recognised that the development of co-operation in the region would enhance the potential for furthering its dynamic growth to the mutual benefit of all countries concerned and that regional co-operation has been strengthened and heightened in recent years.

A review of the current developments of the Pacific, identifying its underlying economic and social trends and the main issues facing the region, the assessment of its longer range prospects and opportunities was contemplated at the annual PMC meetings. The formulation of co-operation programmes would however be taken at senior officials level.

PURPOSE AND OBJECTIVES

The purpose of the Programme is to build up the necessary knowledge and skills to catalyse and promote growth and development of the member developing countries in accordance with their evolving requirements and the modernisation of their economies.

The objectives of the Programme are among others:

- to heighten awareness and a sense of identity in Pacific co-operation and, towards this end, to enhance contacts and working relationships among the member countries.
- to assist in developing strategic areas on human resources development (software) based on the countries' needs and common interests;
- to strengthen relevant existing institutions and programmes devoted to human resources development.

AREAS OF CONCENTRATION

In the selection of areas of concentration for possible co-operation, several were taken into consideration such as:

a. Science and Technology
b. Travel and Tourism
c. Transport and Communications
d. Trade and Investment
e. Industry
f. Etc.

Criteria as to the selection of appropriate projects on Human Resources Development are several, a.o. it should achieve a multiplier effect -- the training of trainers; another is "the realisation of practical benefit-relationship" to employment and income-generation. It should be noted that the countries of the region have different backgrounds, history, culture and are in different stages of development.

Considering this heterogenous background, it was found necessary to initiate this ASEAN-Pacific Co-operation with a programme that would meet the needs for all the developing countries of the region in their efforts of development and at the same time would pose no meaningful difficulties to its dialogue partners. At the initial stage it was felt that a theme should be selected that was feasible, non-controversial and would entail common regional interest.

HUMAN RESOURCES DEVELOPMENT: PROGRAMME FOR BUDGET YEAR 1985/1986

For the 1985/1986 period, the choice fell on Human Resources Development (HRD) in the economic and social sector, an area which proved readily accepted by all the 6 plus 5 countries of the region. At a later stage this HRD programme could be expanded to cover other aspects of life. This HRD programme is meant to be an ongoing process.

The development of skills -- geared to the requirements of the Pacific economy from basic skills to more advanced and sophisticated areas of HRD was considered urgent in the context of overall development of the Pacific Area. It involves the development and utilisation of manpower which are best achieved through training, education, research information seminars, symposia and scholastic exchange etc. with a view to improving employment and income-generation to further achieve economies of scale.

This includes those activities designed to enhance knowledge, skills and technology transfer. Areas of concentration on HRD agreed upon among others:

1. Management and Entrepreneurship
2. Science and Technology
3. Agriculture, Forestry and Fisheries
4. Industry
5. Transport and Communications
6. Trade and Services
7. Research and Planning

DEFINITION OF HRD

There are various definitions on HRD. The UN, UNESCO, ILO, UNIDO, FAO to name a few, have all their own definition, but the message that runs through these definitions is fundamentally the same, namely: "that HRD is the process of enhancing the capacity of people to participate constructively in national development."

It is said that "much of development in the past in industrialised countries was due not to additions to capital -- but to improvements in man's capacity, skill, knowhow, management, etc. "Man's capacity, not capital is the main condition for a more efficient use of resources." We in Indonesia use the expression of "the man behind the gun" as the determining factor in the solution of problems.

In ASEAN countries, "rapid growth" and industrialisation in the past two decades have resulted in higher income levels and more complex and diversified economic structures. Higher income levels tend to bring about a growing demand for higher education-training, as well as increased expectations with regard to the quality of employment. At the same time, the more complex economic structure implies greater diversity in demand for trained personnel and the need to support economic re-structuring and the maintenance of international competitiveness through appropriate manpower policies.

In countries such as Singapore and Malaysia, tight labour markets will be heavily dependent on the ability to achieve increases in labour productivity.

Despite the rapid strides made in primary, secondary and tertiary education, it is widely recognised by most developing countries that the programme of education and training at various levels need to be enhanced both in quality and relevance. For your information, these last few years education has been given the biggest proportion of Indonesia's state budget.

The growing demand for increased education and training should be consistent with the demand for trained manpower. This is necessary to avoid social and economic wastage associated with educated and skilled unemployment. In other words, how efficiently are human resources being developed and deployed in the economy.

The enlistment of popular support for national development and the active participation of broad national groups is an essential ingredient of human resources development. These national groups may be employers, professionals, teachers, workers, villagers, farmers, entrepreneurs, women or youth.

Development of skills and adequate incentives are needed to encourage individuals to prepare for and engage in productive activities.

HRD includes consideration of activities with the active involvement and support of the private sector, universities and the relevant non-governmental organisations.

Human resources development also includes aspects of manpower forecasting, job-specifications and job/task/skill analysis, the adequate identification of training needs, career guidance and appraisal, communication and evaluation, management and supervision.

The challenge of HRD is therefore as wide as development itself. The World Development Report for 1983 calls the mobilisation of the skills and

energies of the population at large as "perhaps the most important task of national economic management."

The objective is to maintain a healthy, literate and economically active population able to participate as fully as possible in the progress of development.

IMPLEMENTATION OF ALTERNATIVES

Proposals on HRD received from the 6 plus 5 participating countries are being prepared by Indonesia as co-ordinator with the co-operation of the ASEAN Secretariat, to be presented to the coming 18th AMM/PMC in July next in Kuala Lumpur for final approval.

These projects are to be implemented in two stages:

a. The Immediate Action Programme (IAP) would comprise those that could be initiated immediately because the inputs required are essentialy incremental, i.e. the facilities and staff are already in place or are based on related activities successfully carried out before.

   Within this category are mainly training-projects symposia, seminars and exchange-programmes. These types of projects may be launched within 1-2 years and are classified as "the crash-programme" of ASEAN-Pacific HRD co-operation. Several are slated to begin immediately after the 18th AMM/PMC in July this year.

b. Intermediate Programme (IP): These types of projects would include projects requiring the upgrading of operational capacities, physical facilities and core-staff development, which will contribute towards institution-building and establishing linkages to ensure complementary efforts. I am happy to inform that Japan belongs to the first dialogue countries to present concrete project proposals in the crash-programme category.

   It was also proposed to develop ASEAN-Pacific HRD centres. In establishing such centres, special emphasis should be on the evolution and strengthening of such centres in ASEAN countries with appropirate technical support from the Pacific Dialogue partners. The suggestion was also made to enhace programme linkages among the HRD centres.

POLICY DIRECTION

Operational principles as guidelines for the participating countries in the

formulation of an ASEAN-Pacific HRD programme have been adopted for final approval in the coming AMM/PMC this July in Kuala Lumpur.

The main guidelines contained therein are among others: that the proposed ASEAN-Pacific Co-operation (APC) in HRD should be complementary to the existing programmes and projects, both in substance, financial or technical co-operation provided (additionalitv), thereby making maximum use of existing institutions based in ASEAN countries. The programme should give due consideration to national needs and priorities and be able to respond to immediate and long-term needs.

The programme should obtain active involvement of the private sector, universities and non-governmental organisations and should be based on the participation, interchange and co-operation of both developed and developing countries in the region (intercountry co-operation). Where relevant, working links should be developed with other regional and international organisations. The creation of new institutions should be avoided, thereby appropriately utilising existing arrangements such as PMC/SOM on APC, the Jakarta HRD meetings and the ASEAN Secretariat. Finally the implementation of the APC programmes should leave open opportunities for the participation of other Pacific countries, particularly the South Pacific countries at the project level.

CONCLUSION

The Pacific region, in which ASEAN is an integral part, has definitely established itself as a major growth centre, in which interaction and interdependence have shown an increasing trend.

In order to maintain its momentum of development in this fast growing region, the free flow of goods should be sustained and not interfered with by policies preventing the free interchange between countries of the region. Such as protectionism invisible barriers and other like measures as introduced by different advanced countries of the region including Japan.

The idea of Pacific economic co-operation emerged, which ultimately led to the establishment of Pacific Economic Co-operation Conference (PECC), a loose form of co-operation among representatives from several Pacific countries, in which informal consultations on common economic matters are held on a regular basis.

Although no new regional institutions has been contemplated, nor limitations to its membership has been set, the image of a permanent formal set-up

consisting of a limited group of likeminded countries, as proposed by its initiators -- notably Japan, lingered on, causing ASEAN to introduce its own version of Pacific co-operation -- a dialogue forum between ASEAN countries and the 5 Paçific OECD countries (Australia, Canada, Japan, New Zealand and the USA) held following the annual ASEAN Foreign Ministers meetings.

ASEAN-Pacific co-operation on Human Resources Development, chosen as its first programme of co-operation is expected to give an impetus to economic development and enhance viability of the region, in particular that of the ASEAN and other developing countries of the region. The success of the ASEAN-Pacific programme greatly depends on the co-operation and positive response and participation of the dialogue partners, especially of Japan, a fellow Asian country!

ASEAN-US Economic Relations: An Update

Hadi SOESASTRO

SIX VIEWS ON THE RELATIONSHIP

For the purpose of analysis as well as formulation of policies on economic relations between the US and ASEAN it should be instructive to examine the different views on the nature of that relationship.[1]

One view would regard ASEAN-US economic relations essentially as an aggregation of US bilateral economic relations with individual ASEAN member countries. Proponents of such a view would point to the fact that each ASEAN country still views itself as entirely independent and has only marginally constrained its sovereignty for the purposes of ASEAN. Each country also wants to enhance its bilateral relations with the US, and not submerge them in ASEAN. This view, however, may no longer be appropriate

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[1]The following review is based on three more recent studies on US-ASEAN economic relations, namely by Hadi Soesastro, "Future ASEAN-US Economic Relations: Perspectives on Strategic Planning," in *ASEAN External Economic Relations*, Proceedings of the Fifth Conference of the Federation of ASEAN Economic Associations, Singapore, October 30 - November 1, 1980 (Singapore: Chopmen Publishers, for the Economic Society of Singapore, 1982); Lawrence B. Krause, *US Economic Policy Towards the Association of Southeast Asian Nations* (Washington, D.C.: The Brookings Institution, 1982); Chia Siow Yue, "Development and Issues in US-ASEAN Economic Relations," in Karl D. Jackson and Hadi Soesastro (eds.), *ASEAN Security and Economic Development* (Berkeley, California: Institute of East Asian Studies, University of California, 1984).

since it totally disregards the existence of ASEAN as an institution of increasing importance.

Thus, the second view suggests the relevance of ASEAN as an economic grouping to function as a focal point in US relations with the respective countries in the region. In addition to efforts of enhancing their bilateral relations with the US, ASEAN countries have seriously promoted ASEAN as an economic entity through the mechanism of dialogues with their main economic partners, including the US. The meeting of ASEAN heads of government in 1976 recognised the necessity to increase ASEAN economic co-operation with "third countries," group of countries and international organisations, with the following objectives:

a. to accelerate joint efforts to improve access to markets outside ASEAN for their raw-materials and finished products by seeking the elimination of all trade barriers in those markets, developing new usage for these products and in adopting common approaches and actions in dealing with regional groupings and individual economic powers;

b. to co-operate in the field of technology and production methods in order to increase the production and improve the quality of export products, as well as to develop new export products with a view of diversifying exports;

c. to co-operate in adopting joint approaches to international commodity problems and other world economic problems, such as reform of the international trading system, reform of the international monetary system and transfer of real resources, in the United Nations and other multilateral fora, with a view to contributing to the establishment of the New International Economic Order (NIEO);

d. to give priority to the stabilisation and increase of export earnings of those commodities produced and exported by ASEAN through commodity agreements including buffer stock schemes and other means.[2]

Apart from those objectives, it perhaps is well recognised by ASEAN governments that ASEAN, as an organisation, can be sustained in part through the interest and attention given it by other countries. The US, as argued by Lawrence Krause, should take ASEAN -- as an institution -- just as seriously as the member countries themselves do. He further suggested that: "An appropriate institutional response would be to create an ASEAN section within the Foreign Commercial Service (of the US). That section would take the responsibility for ensuring an appropriate US policy stance. Also a deputy assistant secretary of state should be designated for ASEAN affairs under the

[2]See ASEAN Secretariat, *10 Years ASEAN* (Jakarta: ASEAN Secretariat, 1978).

assistant secretary of state for Asia and the Pacific. Such a person would be responsible for institutional developments, including the preparation of ASEAN-US dialogues. When the time becomes appropriate, an American ambassador to ASEAN should be appointed."[3] As observed elsewhere, "As (the US) sees ASEAN as a reality and approaches it as a co-operative economic union, so does ASEAN respond in that same light."[4]

The third view sees the relations between ASEAN and the US as a relationship between unequal partners, which typifies the North-South asymmetrical interdependence in trade, investment and aid and unequal bargaining strengths.[5] Seen from this perspective it is unavoidable for both parties to adopt opposite views on many bilateral, regional, and global economic issues. It is however widely believed that both the US and ASEAN have adopted a non-confrontative attitude in approaching those issues in their bilateral relations. Such an approach facilitates better comunication, but it remains to be seen whether ASEAN-US relations can contribute to a satisfactory solution to global North-South problems.[6]

Rather than focussing on those conflicting North-South issues, the fourth view suggests that ASEAN-US economic relations be seen from the many values and interests which both parties share in common.[7] One such common interest is the security and stability of Southeast Asia. Both sides seem to understand well that economic development in ASEAN countries is an -- if not the -- important determinant of regional stability. A US policy which encourages trade with ASEAN countries and facilitates private American investment will be seen as a reaffirmation of a strong, general political and security commitment to the region. However, it may be difficult for the US to transmit signals of security commitments through economic measures, because the needs of the American economy may not correspond to ASEAN's economic requirements. It is equally unclear whether economic co-operation between ASEAN and the US would be better facilitated under a more explicit security arrangement. It is widely recognised that politico-security considerations remain a major US concern in its approach to the Southeast Asian region. However, it is unrealistic to expect that ASEAN would be prepared to engage itself

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[3]Lawrence B. Krause, *US Economic Policy*, p. 81.

[4]See statement by Charles Robinson in the *First ASEAN-US Business Conference*, Manila, Philippines, July 1979, A Report by the US Secretariat, pp. 37-41.

[5]Chia Siow Yue, "Development and Issues."

[6]Hadi Soesastro, "Future ASEAN-US."

[7]See, e.g. Hans H. Indorf, "Critical Undercurrents in Future US-ASEAN Relations," *Indonesian Quarterly*, vol. XII, no. 4 (October 1984), pp. 440-460.

in any arrangement of that sort.[8] It has been argued elsewhere that relations between ASEAN and the US would remain minimal, among other things, due to ASEAN's prevailing ambivalence regarding its relations with this superpower.[9]

Thus, despite the recognition of the security-prosperity links in Southeast Asia, ASEAN-US economic relations should perhaps be guided by their own economic merits. Lawrence Krause argued that a greater US economic involvement in ASEAN serves US own economic interests as well.[10] It is not clear at present in how far such increased economic interactions would lead to the establishment of more formal economic structures, such as a US-ASEAN free trade area which has been suggested by US Trade Representative, William Brock in 1983.

A fifth view suggests that ASEAN-US economic relations should be seen in the context of American versus Japanese economic interactions with ASEAN. Bilateral economic relations between the US and ASEAN has implications going far beyond that bilateral relationship. An important factor entering into this relationship is the economic role of Japan in the region. ASEAN wishes to see an increased US economic presence in part to balance or prevent a Japanese overpresence. This should not mean that an increased US economic role is pursued at the cost of Japan's economic interests. Seen from a broader strategic perspective, a balanced presence of the US and Japan should be in the Japan's own interest, since it guarantees a stable and enlarged ASEAN-Japan economic relationship.[11] There have been indications that in fact, the US encourages a continued expanded Japanese economic role in the ASEAN region and prefers Japan to take the lead in dealing and negotiating new arrangements with ASEAN.

Lawrence Krause has developed a different argument: Japan is the dominant economic partner of ASEAN countries; "if the US is successful in ASEAN, it will be able to meet the Japanese challenge in other areas as well."[12]

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[8]See, e.g. a discussion by J. Soedjati Djiwandono, "The Soviet Presence in the Asia-Pacific Region: An Indonesian Perspective," *Indonesian Quarterly*, vol. XII, no. 4 (October 1984), pp. 423-439.

[9]Hans H. Indorf, "Critical Undercurrents."

[10]Lawrence B. Krause, *US Economic Policy*.

[11]See Hadi Soesastro, "Future ASEAN-US."

[12]Lawrence B. Krause, *US Economic Policy*, p. 75.

The sixth, and last, view is that ASEAN-US relations should be put in a broader regional framework, since the Asia-Pacific context of those countries has increasingly become important.[13]

The various views above could lead to the formulation of a variety of policy alternatives involving different combinations of those views. Of interest would be an examination of the extent to which those different views have influenced the nature of ASEAN-US relations over time. This, however, is beyond the scope of this paper.

It can be observed in general that bilateral ASEAN-US relations over the last ten years or so, especially since the establishment of the ASEAN-US Dialogue in September 1977, have been promoted by ASEAN for a number of reasons. Bilateral US relations with individual ASEAN countries remain important, but ASEAN countries have increasingly formulated common approaches on many economic issues affecting ASEAN and have resorted to the ASEAN-US Dialogue as the forum for expressing their joint proposals and demands for greater economic co-operation in the areas of trade, investment, and development. The areas which lent themselves most suitable for bilateral ASEAN-US dialogues largely coincide with those in the global North-South dialogue. It has become inevitable that many economic issues in ASEAN-US relations are addressed and approached from a North-South perspective.

ASEAN considers itself, as often confirmed by outsiders, a moderating factor in the North-South dialogue. It has been suggested that therefore, and through the ASEAN dialogues with its main economic partners, ASEAN could contribute to the satisfactory resolution of a number of North-South problems, primarily in the areas of trade and commodities. Successful negotiations on those issues by ASEAN with the US and Japan in particular are to be taken as a model for global negotiations. ASEAN's motives, however, are not entirely altruistic and indeed should not. For ASEAN should attempt to optimise its own gains from those negotiations.

Some in ASEAN have argued that ASEAN's position on the North-South dialogue should remain inseparable from that of the Group of 77; and that ASEAN should not seek a separate path. Others have argued that ASEAN should forge ahead with its own arrangements, stressing ASEAN's own interest first and move towards a more comprehensive level only when a base

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[13]Hadi Soesastro, "ASEAN and North-South Trade Issues," *Indonesian Quarterly*, vol. XI, no. 3 (July 1983), pp. 59-82. This suggestion was also made by Lawrence B. Krause, *US Economic Policy*, p. 81. More specifically, on the ideas of the so-called Pacific Basin Economic Co-operation, see, e.g. Hadi Soesastro and Han Sung-joo (eds), *Pacific Economic Co-operation: The Next Phase* (Jakarta: CSIS, 1983).

agreement has been reached with one or two of the major industrialised countries, the US and Japan in particular. This latter view in fact suggests that the emphasis should be placed on ASEAN dialogues with its main trading partners.[14]

Thus, the ASEAN-US dialogue, which is a most visible mechanism for consultation and the only concrete manifestation of relations between the US and ASEAN as a group, has in fact reinforced the North-South nature of that relationship.

Over the years, greater importance tends to be given by ASEAN to these dialogues, partly because it regards them as its most successful achievement. This in turn has tended to reduce the function of the ASEAN-US dialogue into a routine exercise, in which the same issues are discussed over and over again.

This paper, being an update, will only examine issues and developments in ASEAN-US economic relations over the last two years or so.[15] The changing international economic environment of the 1980s, the global recession and its fragile recovery in particular, seems to have some influence on the way ASEAN assesses its relations with the US as manifested by the series of ASEAN-US dialogues. ASEAN seems to have recognised the need for fresh approaches, but that is as far as it has gone so far.

THE ASEAN-US DIALOGUES: A RE-ASSESSMENT

During the preparatory meeting for the Fifth ASEAN-US Dialogue, both sides agreed to include in the agenda an item on an assessment of the ASEAN-US dialogues. In the fifth dialogue, which took place in December 1983, ASEAN submitted a memorandum, which among other things concluded the following points:

a. The coverage of the agenda of past dialogues basically comprised of items relating to international trade and commodities; investment and finance co-operation; shipping; and development co-operation. In the actual dialogues international trade issues were discussed in great length, but most

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[14]See the discussion by Narongchai Akrasanee, "ASEAN and the New International Economic Order: A View from Thailand," and Dorodjatun Kuntjoro-Jakti, "ASEAN, Japan and NIEO: Towards a New Strategy of Dialogue," both in B.A.R. Mokhzani, Khong Kim Hoong, R.J.G. Wells (eds.), *ASEAN Economic Co-operation and the New International Economic Order* (Kuala Lumpur: Malaysian Economic Association, 1980).

[15]The earlier period has been reviewed by the author in great length and can be found in *ASEAN External Economic Relations.*

of the issues discussed were those articulated by the dialogue partners in various international fora. Investment and finance, shipping as well as development co-operation were not given sufficient attention, and there was a lack of focus in the discussion required for evolving constructive structures for trade and other economic activities;

b. In most of the discussions, the US side either took note of ASEAN views and requests, or its responses were in the form of clarification or information on existing US policies and activities on issues under consideration. In general, the dialogues did not result in concrete decisions of mutual benefit to the dialogue partners;

c. There have been some progress in the field of development co-operation in terms of concrete projects in agriculture, energy, public health, academic training and research. In the area of trade and commodities, the main areas of attention in the dialogues, only two major ASEAN requests were favourably acted upon by the US. They were: (i) the inclusion of Indonesia in the US-GSP (generalised system of preferences), and (ii) the re-instatement of Philippine rattan furniture in US-GSP. In investment and finance co-operation, none of the major requests of ASEAN were granted;

d. ASEAN believes that in order to strengthen ASEAN-US economic relations, the dialogues should be held at the appropriate ministerial level and with relevant government agencies on an *ad hoc* basis as and when necessary. Furthermore, ASEAN suggests that future discussions should be more focused on evolving constructive structures for trade and other economic activities as well as on the need for technology transfer. It also suggests the desirability for the US to establish a comprehensive structure for economic co-operation for ASEAN.[16]

In view of the above assessments it can be said that the results of the ASEAN-US dialogues have been meagre indeed, in particular in the area of trade, which has been the main preoccupation in the dialogues.

The disappointing results of the dialogues, however, are not immediately reflected in US-ASEAN trade performance. Based on the trade growth figures in Table 1 it could be concluded that inspite of the poor results in the area of trade negotiations, trade between US and ASEAN has grown faster than between US and the world. US-ASEAN trade performance in general has been better than that between the US and the industrialised countries, oil-exporting LDCs, or non-oil LDCs.

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[16]See, *ASEAN Memorandum on Assessment of the ASEAN-US Dialogue*, submitted to the Fifth ASEAN-US Dialogue, Manila, 5-6 December 1983.

Table 1

US TRADE WITH ASEAN (annual average growth, in percentage)

	US Exports		US Imports	
	1976-1979	1979-1983	1976-1979	1979-1983
Brunei	12.4	3.3	9.7	-42.7
Indonesia	19.1	10.6	13.8	9.6
Malaysia	14.8	15.9	22.7	-0.5
Philippines	17.7	3.6	13.5	7.0
Singapore	24.7	12.7	20.5	17.9
Thailand	29.0	2.6	20.4	12.5
ASEAN	21.0	9.6	16.7	8.4
World	12.1	2.5	13.8	4.9
Industrial countries	12.1	2.5	13.0	8.0
Oil-exporting LDCs	4.4	3.2	13.0	-15.0
Non-oil LDCs	14.4	3.4	15.9	9.9

Source: IMF, *Direction of Trade Yearbook,* various issues.

US imports from ASEAN grew by about 16.7 per cent per annum average in the period 1976-1979, compared to 13.8 per cent for total US imports. The rate of growth of US imports from ASEAN dropped to 8.4 per cent in the period 1979-1983, but during that period total US imports have increased by less than 5 per cent. US imports growth from Singapore and Thailand remained well above the average rate of growth of US imports from ASEAN, whereas US imports from Malaysia deteriorated most during the 1979-1983 period. These different performances suggest that some of the problems may be specific to each ASEAN country.

The US has become Singapore's largest trade partner outside of its intra-ASEAN trade (see Table 2). Trade between the two countries continue to grow and is not faced with any serious problem. One main problem area in the relations between the two countries at present is the question of piracy and copyright protection for US products. Thailand equally has been successful in its exports to the US. Recently, Thai tuna-exporters have defeated attempts to raise tuna import tariffs in the US as a result of legal argument and intense lobbying by Thailand's private sector, backed by its government.[17] A sudden

[17]See special coverage on protectionism in *Far Eastern Economic Review,* 1 November 1984.

sharp rise -- albeit from very low bases -- in textiles and garments imports from Indonesia resulted in a harsh response from Washington, and since August 1984, textiles have been the hottest issue in Indonesia-US trade relations. These recent problems suggest that most of the trade problems with the US will have to be dealt with directly in Washington, and must involve approaches to the Congress. These requirements are not met by the series of ASEAN-US dialogues.

Table 2

DESTINATION OF ASEAN EXPORTS, 1983 (percentage share)

	Destination			
	US	Japan	EC	ASEAN
Brunei	8.1	67.7	0.7	13.2
Indonesia	20.2	45.8	4.5	16.4
Malaysia	13.1	19.4	14.2	29.1
Philippines	36.3	19.9	16.6	7.3
Singapore	18.1	9.2	9.1	25.5
Thailand	15.2	15.5	23.0	14.3
ASEAN	18.3	26.0	10.1	20.7

Source: IMF, *Direction of Trade Yearbook 1984.*

As suggested by a recent survey, in view of their growing reliance on export revenue Asian countries are forced to become more sophisticated in their response to protectionism in the industrialised countries. "Merely pointing out their plight has won them little sympathy in Washington, especially when they are selling more and more to the US and run trade surpluses with it year after year." Furthermore, it has been observed that although all Asian countries have a state in fighting protectionism, none dare rely too much on their neighbours in the battle, since one nation's defeat in the trade wars often becomes another's victory.[18] These observations currently apply mostly to the NICs (newly industrialising countries) of Northeast Asia. However, one may not be surprised if they soon would become valid in the ASEAN region as well. This alone would suffice to encourage ASEAN to design fresh approaches and new trade strategies.

With regard to its trade with the US, it could be examined in how far ASEAN could still increase its exports to the US. Table 2 suggests that such

[18] *Ibid.*

possibilities do exist in view of the fact that ASEAN exports to the US still lack behind its exports to Japan. In 1983, exports to the US amounted to 18.3 per cent whereas exports to Japan constituted 26 per cent of total ASEAN exports. It should be noted, however, that non-oil (fuels) exports to the US may be on par with those to Japan.

Through its dialogues with third parties, especially the US and Japan, ASEAN has emphasised the need for specific actions in the area of trade, namely (a) the establishment of a STABEX scheme to stabilise export earnings, through loans by the US and Japan in particular, and increasingly for (b) greater market access for ASEAN products in those countries.

An assessment of ASEAN-US dialogues should include an examination of the adequacy of ASEAN approaches in dealing with the above issues. This is most urgently called for, especially on the problem of market access, as a result of the passing of the US Trade Bill on October 12, 1984, which has more restrictive and discriminatory features.

Commodity Issues and STABEX

ASEAN's basic policy objectives in respect of commodity exports are threefold: (a) the attainment of more stable prices; (b) the steady long-term growth of exports earnings in real terms; (c) the securing of improved market access for raw and processed primary commodities to the markets of industrialised countries.

In the past, ASEAN countries have relied on international commodity price stabilisation schemes and on the CFF (compensatory financing facility) of the IMF to solve commodity export instability problems. Experiences have shown the serious drawbacks of international commodity agreements based on supply control and buffer stock mechanism. These schemes have created additional problems which relate to the financing of the buffer stock, fixing the basic price range, administering quota regulations, etc. It should also be borne in mind that theoretically, any supply control programme introduces rigidity into production and trade and thereby, hampers movements towards a more efficient resource allocation.[19] The existing IMF CFF has also been found to be inadequate.

ASEAN's support for the IPC (Integrated Programme for Commodities) is based on the fact that the objectives of the IPC go beyond the stabilisation of

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[19]See Mohamed Ariff, *Malaysia and ASEAN Economic Co-operation* (Singapore: ISEAS, 1981).

commodity prices. The IPC also aims at the improvement of competitiveness of natural products, marketing and distribution as well as product diversification and expansion of processing of primary products.

At the global level, ASEAN has participated actively in the negotiations on the Common Fund of the IPC to finance commodity buffer stocks and other measures to stabilise commodity prices. ASEAN also has taken an active part in the negotiations on individual commodities of interest to ASEAN, such as tin and natural rubber. These negotiations are carried out together with the negotiations on the Common Fund so that specific commodity agreements could benefit from the Common Fund when it becomes operational.

A number of commodities of interest to ASEAN, such as sugar and vegetable oils and seeds, do not lent themselves to the buffer stock approach. Hence, an alternative solution is called for. In this regard, ASEAN countries consider the Lome type of STABEX arrangement to have merit as a supplementary measure to the buffer stock operations for commodities under the IPC. At the ASEAN-Japan Summit in Kuala Lumpur, ASEAN proposed to the Japanese to work out a similar scheme between ASEAN and Japan. The US and the EEC were also approached in the same fashion.

The Japanese seemed to have been willing to consider the proposal. The US Administration, however, rejected STABEX in favour of continued efforts in the globally based North-South negotiations. The US State Department specifically opposed Japanese involvement in a STABEX scheme. In the US view, problems of instability in export earnings are more effectively addressed through IMF's CFF.

In the First ASEAN-US Dialogue, STABEX was proposed by ASEAN as a transitional arrangement -- pending finalisation of the IPC -- which could at a later stage be globalised. In the Second ASEAN-US Dialogue in 1978, it was suggested that STABEX should be viewed as an additional and supplementary measure to the Common Fund and individual commodity arrangements, and not as replacement. With the agreement reached on the establishment of a Common Fund in 1980, the STABEX proposals seemed to have been given a lower priority on the agenda of ASEAN dialogues.

A view from ASEAN itself thought it to be unfortunate that ASEAN has proposed the STABEX scheme. It was argued that: (a) the IMF CFF in fact is a good scheme and that the conditions attached to it are negotiable and manageable; (b) STABEX, in the form of soft loans is suitable for the poor ACP (African, Carribean and Pacific) countries which were former colonies

of the EEC, and thus imply certain moral responsibility on the part of the EEC to help; but these same reasons make STABEX unsuitable for ASEAN.[20]

In the Fifth ASEAN-Japan Forum in 1982, ASEAN urged Japan to give priority to the eventual establishment of a globalised STABEX type arrangement, in support of the position of the Group of 77 that such a facility should be additional to IMF CFF, other facilities and to actions taken under the IPC to deal with problems of price stabilisation.

Similarly, in view of the slow progress in the implementation of the Common Fund, ASEAN urged Japan, which has ratified the Common Fund Agreement, to support international moves to press on with the efforts in the Preparatory Commision. In particular, ASEAN stressed the importance of strengthening the Second Account of the Common Fund which facilitates: (a) R & D aimed at strengthening the position of raw-materials; (b) transport, marketing and distribution of raw-materials; (c) development and diversification of ASEAN's natural resources; (d) local processing of raw-materials.

In regard to solving the commodity problems, ASEAN noted the greater and more difficult task towards the conclusion of international commodity agreements which constitute the pillars of the Fund, although negotiations on the Sixth International Tin Agreement (6th ITA) and on the International Natural Rubber Agreement (INRA) have been concluded within the framework of the IPC.

Apart from the above international commodity agreements, ASEAN countinues to seek close support from its dialogue partners in several other areas, such as vegetable oil and seeds, tropical timber and timber products, banana, and hard fibres.

In summing up, it can be said that ASEAN's joint approaches through the mechanism of ASEAN dialogues with third countries, including the US, have failed to bring about tangible results insofar as bilateral or regional arrangements -- such as a regional STABEX for ASEAN -- are concerned. While it may be true that ASEAN's diplomacy on commodity issues at the global level may have had some effects, the difficulties in the way of creating and operating commodity prices stabilisation arrangements remain insuperable.[21]

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[20]Narongchai Akrasanee, "ASEAN and the New International Economic Order."

[21]Indeed a recent study by Seiji Naya attempts to calculate the cost of the STABEX and found the financial burden too high to make the proposal unattractive and infeasible. This information is based on a personal communication with the author.

The 14th ASEAN Economic Ministers Meeting in Singapore in November 1982 has considered the need for fresh thinking and new initiatives in the area of commodities of interest to ASEAN, including to reassess its position regarding the IPC. As already stated elsewhere some time ago, ASEAN countries may be well advised "to pool their resources to step up R & D jointly and remain competitive in raw-material production rather than attempt to raise raw material prices through commodity control."[22]

Trade Issues and Access to Markets

The current international trading system is under great stress as manifested in the various difficulties and contradictions in the conduct of trade. These difficulties arise from the ever increasing degree of discrimination and the proliferation of flexible measures of protection (i.e. safeguards); the decline of the unconditional MFN principle (as regard to the implementation of the MTN Agreements/Codes on non-tariff barriers); the greater tendency to resort to bilateral procedures (e.g. voluntary export restrictions); and the hardened commercial policy of major importing countries, particularly on agricultural products.

The 14th ASEAN Economic Ministerial Meeting in November 1982 has taken a clear position on the above issues in preparation of the GATT Ministerial Meeting in the same month. Most of the issues have been dealt with in the various ASEAN dialogues with major trading partners, focusing primarily on improved ASEAN access to markets in industrialised countries.

In regard to this, ASEAN has sought to eliminate existing barriers and increase the range of their goods -- manufactured goods in particular -- which could enter the markets in industrialised countries free of duty or under certain preferences.

Special barriers to exports of manufactured goods from LDCs have arisen from three distinct causes. Industrial tariff reductions have largely come about since World War II through reciprocal concessions among industrialised countries on a most-favoured-nation (MFN) basis. As a result, the US applies lower tariffs to manufactures exports of the EEC, for example, than it does to those of most LDCs.

Tariff escalation is another source of special barriers. Industrialised countries' tariffs weigh more heavily on manufactures than on raw-materials.

[22] Mohamed Ariff, "Malaysia and ASEAN."

Quotas and a variety of voluntary agreements constitute another major source of special barriers. Under the trade rules adopted by the industrialised countries, a sudden surge of imports can be met with trade restriction (safeguards).

The ASEAN memorandum on protectionism, presented at the Second ASEAN-US Dialogue, cited the countervailing duty cases on textiles and garments being brought against ASEAN countries by the US Treasury on the grounds that their production is subsidised. This issue was finally resolved in ASEAN's favour. ASEAN also has brought its disappointments with the MFA to the US attention since the first dialogue.

To counter both special barriers to exports and high production cost, the LDCs have urged the industrialised world to make a unilateral cut in tariff on products imported from LDCs.

In the various ASEAN dialogues, trade issues in the MTN have been raised by ASEAN, and the dialogues partners have been urged to fulfill their commitments set forth in the Tokyo Declaration as well as to improve their offers in terms of product coverage, depth of cut and accelerated staging. In the MTN, the US chose to offer permanent MFN reductions but expected some reciprocity. Other industrial countries focused their concessions for tropical products on their existing systems of preferences.

Tariff-cutting formula adopted at the MTN is believed to have a substantial effect on the exports of developing countries. In the First ASEAN-US Dialogue, for example, ASEAN has submitted a list of products to be included in the US offers, and later each ASEAN countries has indicated the extent of reciprocity it could grant to the US in accordance with the Tokyo Declaration. The US agreed to give concessions to ASEAN exports, among others on coconut oil imports from the Philippines on a zero tariff basis starting as of January 1981.

In the ASEAN dialogues, considerable attention was given to improvements in the GSP. ASEAN deems the GSP to be an important instrument for the expansion of its exports and the promotion of its industries. Lists of products proposed for inclusion in the GSP schemes of Japan, the US, or the EEC have regularly been submitted jointly by ASEAN countries in the dialogues. In addition, a number of specific changes were proposed by ASEAN, covering: eligibility of all ASEAN countries (when Indonesia was excluded as a beneficiary country as an OPEC member); liberalisation of the competitive need limitation; liberalisation and simplification of the cumulative rules of origin (CRO); simplification of procedures and data requirements for product

requests; the GSP as a permanent element in the international trading system, and more recently on the so-called GSP erosion.[23]

Negotiations on GSP by ASEAN lent itself suitable to the mechanism of dialogues, namely bilaterally between the GSP "donor" and the GSP "recipient." The GSP, it should be noted, involves a unilateral concession by the donor, and its GSP donor introduces its own unique preference scheme.

ASEAN as a group, seems to have gained some concessions from its negotiations on GSP with the US as well as the EEC, and Japan, such as in the application of CRO for ASEAN as well as in the expansion of product coverage.

However, specific studies evaluating the effects of GSP, such as of the EEC-GSP on ASEAN products,[24] or on a more global scope,[25] suggest the quite meagre trade benefits of the GSP. Thus, ASEAN's emphasis on improvements in the GSP, which has become an important feature in the agenda of its dialogues, does not seem all that meaningful.

It should be examined, however, in how far ASEAN has been affected by the US move in March 1984 to tighten restrictions on duty free access to the US market. This move was part of an annual product review of the 3,000-plus articles from 140 countries allowed entry under the US GSP. As of March 30, 1984, imports valued at US$11.9 billion last year were excluded from the US duty-free list. Some US$10.7 billion was automatically excluded because of the programme's competitive need limitation.[26] The remaining US$1.2 billion in imports was "graduated" from GSP.

Indeed, the current major issue of wide-ranging implications to ASEAN, which now has come to the fore more pronouncedly in its negotiations with industrialised countries, is the so-called "graduation" of ASEAN countries. The

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[23]As importing countries lowers many of its tariffs and duties, the difference between the new (MNF) rates and the GSP rates is lessened. Thus, LDCs benefit less from the GSP programme. The US, Japan, and the EEC refused to recognise the problem of GSP erosion.

[24]See for example the study by Rolf J. Langhammer, "ASEAN Manufactured Exports in the EEC Markets: An Empirical Assessment of Common and National Tariff and Non-Tariff Barriers Confronting Them," in Narongchai Akrasanee and Hans Christoph Rieger (eds.), *ASEAN-EEC Economic Relations* (Singapore: ISEAS, 1982).

[25]See Tracy Murray, *Trade Preferences for Developing Countries* (New York: Wiley & Sons, 1977).

[26]This competitive need limitations are applied when GSP imports of any particular item exceeds 50 per cent of total imports of that item, or when the value of that import is above US$57.7 million.

graduation, if accepted, implicitly means ineligibility for a variety of preferences or facilities, including the GSP, thus, automatically moves ASEAN countries from GSP rates to MFN rates. For a number of reasons, including political ones, ASEAN strongly rejects the graduation concept. Nonetheless, ASEAN needs to consider the US proposal for the introduction of a preferential rate, which is an intermediate rate between the GSP rate and the MFN rate, which is meant to be applied to countries which have graduated to a higher stage of development.

While most of the above problems are encountered by ASEAN in its trade with many industrialised countries, some of them are more pronounced when dealing with the US. The new US Trade Bill includes an eight-and-a-half-year extension of the GSP which includes the elements of graduation, and eligibility is linked to recipient's respect for intellectual property. The bill also includes reciprocity measures which allow the President to retaliate when barriers to US exports are not removed by negotiations.

Another main concern of ASEAN countries relates to US policy on accession by LDCs to the GATT Code on Subsidies and Countervailing Measures. The US policy extends the benefit of the injury criterion to acceding LDCs only if and when they enter into a commitment that satisfies the US government to phase out their export subsidies.

CONCLUDING REMARKS

Various stop-gap measures, while negotiable, definitely remain to be wearisome. Many trade issues encountered in the operations of the international trading system today may only be the symptoms of more fundamental problems of the world economy today. Thus, trade issues cannot be isolated from other economic (and socio-political) problems in the monetary, fiscal, and investment fields which are faced by the world economy, especially by many industrialised countries and in the relations among them.

In the dialogues with the US and other countries, ASEAN always present a set of issues, covering trade, development, investment, and in other areas of co-operation. ASEAN is well advised to present those issues in a more systematically thought-out package.

There still is a great uncertainty as to whether the world economy will soon come out of the recession. Opposing signs are still present. Many trade problems may automatically recede with a rigorous recovery of the world

economy. However, prolonged recession will likely lead to a collapse of the international trading system.

In the Fifth ASEAN-US Dialogue, ASEAN expressed the need for the establishment of a comprehensive trade and economic co-operation programme to enhance economic relations between ASEAN and the US. Such comprehensive economic structures may indeed be desirable but they are not easy to design and to implement: Much of ASEAN's worry which lead to that proposal seemed to be based on the US Carribean Basin Initiative (CBI) on the one hand, and the effects of the slow economic recovery on the other hand.

ASEAN is less concerned with the effects of the CBI but it is wondering why a similar arrangement could not be made between the US and ASEAN. However, it is far from clear whether ASEAN is politically prepared to engage itself with the US in a structure of that sort.

Economically speaking, such a structure may not guarantee that the damage to US partners would be minimised during a recession or economic slowdown.

Meanwhile, the effects of continued protectionism and the more widespread application of the graduation principle could be divisive from ASEAN. This being the case, ASEAN should not ignore the need for an assessment and re-examination of its own structure.

Book Reviews

Territorial Power Domains

Territorial Power Domains, Southeast Asia, and China: The Geo-Strategy of an Overarching Massif by Lim Joo-Jock. Singapore: Institute of Southeast Asian Studies, 1984, 234 pp. This review article is written by Dr. Hilman Adil, National Institute for Economic and Social Research (Leknas) Indonesian Institute of Sciences (LIPI).

Lim Joo-Jock, a senior fellow at the Institute of Southeast Asian Studies who has done his research at the Strategic and Defence Studies Centre of the Australian National University, has written an important work on "Territorial Power Domains, Southeast Asia, and China." The book deserves the serious attention of scholars, students, and policy-makers.

This well-researched, carefully written book has many strengths and some weaknesses. The writer attempts to analyse both the power domain and the core-periphery concept and the factors or determinants of these concepts through Southeast Asian history that may underlie current political problems in the region. He has given an original and incisive account of the highland-lowland dichotomy which leads to conflicts, and brings an inter-disciplinary approach and vast knowledge of Southeast Asian history to this short but thought-provoking book.

He defines this dichotomy in its broadest sense, as the search for valid explanations of factual reality which he argues has existed throughout the history of the region. He bases his arguments on a detailed account of conflicts caused by this dichotomy from the earliest days of the pre-colonial period marked by constant conflicts between mountain dwellers and plainsmen, respectively minorities and majorities in the area they inhabit.

These majority-minority relations are subsequently analysed in the light of political and strategic issues facing the Southeast Asian region. There is a tendency in Thailand, Burma, and Vietnam, to consider these mountain dwellers as crude and uncivilised people. The author, however, does not entirely agree with such a stereotype image and cites as an example that during the first Vietnamese War, the Vietminh managed to establish good relations with the mountain people. The source of conflict between the two groups, he argues, actually focuses on the problem of regional autonomy.

In the next two chapters, the conditions and the strategic significance of international boundaries in Southeast Asia are discussed. This part emphasises the importance of boundary questions and the fact that they are one part of the totality of states' relationships.

Subsequently, the next chapter deals with the question of territorial bases of power and.

the concept of spatial power domains. This implies "separation, in terms of power, of the core from the periphery." The focus is put on "the varying degrees of power which are available to a state with large tracts of territory of differing strategic characteristics and which are manifested in the core-periphery dichotomy."

In the following chapter, the author proceeds to examine "the applications of various forms of power and the maintenance of stability in the region" within the context of the post-1975 power situation.

The concluding chapter consists of a summary of the thrusts of the author's arguments and some suggestions to view definitions of regionality in flexible terms.

The last three chapters may well be the most useful section for serious students of Southeast Asian affairs as well as policy-makers who will want to refer to these chapters and to test their relevance in other studies.

Its central premise focuses on the need to unify various concepts, like Karl Deutsch's power domain theory with studies of the implications of differentiation between core and periphery by Jean Gottman or Rokkan's core-periphery approach in modern political geography in analysing the evolution of the European states.

The concept of power -- whether political, economic, military or religious -- is normally understood to mean the ability of individuals or groups to win the submission of others to their purposes. This, however, conceals as much as it reveals. It provides few clues as to the common factors underlying the concept of power. It is in this context, that one should appreciate this study as it concerns itself with an effort to identify the sources of power and to see the instruments by which power is exercised and enforced.

The author begins in this section with the instruments of power which is generally controlled by the low-land majority in mainland Southeast Asia. He touches on their features, notes the differences in the various states and explores the purpose of power. Next, he turns to the sources of power. He argues, for example, that physical concentration of people and resources facilitates organisation and control which subsequently creates a power domain. The concentration of potential power in the plains is derived from a combination of factors, like the density of population which is highest in the low-lands as a direct consequence of topography, soil conditions, water supply, and access to the means of transportation of goods.

Having these essential established, the author then proceeds to the dynamics of power. He observes how the sources of power and the instruments of its environment have changed in importance, character, and combination, from pre-colonial days until the presence. He also gives some illustrations of the automatic resistance by highland minorities to power exercised by low-land majorities, thereby drawing attention to the central role of low-land majorities in the functioning of the modern polity of Southeast Asia.

At the same time that one lauds this book, one must also be conscious of its shortcomings. The theoretical framework which is mostly based on Deutsch's power domain theory and the cases cited to support the arguments could be abridged significantly without damaging the merit of the logic. It takes the author several chapters to lay out the theoretical framework. Thus one gets the impression that the complexity of his presentation is greater than the theory warrants.

One must also question whether we can generalise about the dichotomy highland-lowland or core-peripheral domains in contemporary Southeast Asia. This question can be answered only if the author chooses to replicate this analysis by using different in-depth studies of the various states in the region.

On this balance, this study makes a significant contribution to our knowledge of foreign policy behaviour in the context of Southeast Asian affairs.

Women's Life: Ideals and Reality

The Role of Women in Rural Community Development (in Indonesian: *Peranan Wanita dalam Perkembangan Masyarakat Desa*) by Pudjiwati Sajogyo. Jakarta: Rajawali, 1983, 379 pp. This review article is written by Medelina Kusharwanti, a staff member of Department of Socio-Cultural Affairs, CSIS.

In this 379 page book, through a research Pudjiwati discusses many aspects of rural community life, especially from the social and economic point of view. From those aspects a variety of indicators can eventually be obtained that may depict the women's role in rural community life.

Many arguments and basic thoughts have been put forward by Pudjiwati to back up the title of the book, in answer to the question why studies on women's role and their related problems to be faced have become increasingly important, especially if connected to efforts in developing community life in general. Pudjiwati writes that understanding the problems of women may be helpful in knowing the meaning of "development," i.e. if development is formulated as a process where males as well as females who become development objectives should participate on equal terms in the process (p. 3)

From that statement it can be noted that the writer wants to prove to and at the same time to convince the readers that the position of men and women is basically alike. In this case, Pudjiwati has the same tendency as many female writers, who motivated by their ideals, want to raise the position of women through their work. In fact women's right to contribute in development is equally important as that of men. Pudjiwati tries to efface the opinion that the role of women who hold the position of maintaining the household structure is belittled by the role of men who are the main income earners and determine their households. In addition to that, an important aspect in the domination of authority by men, is that structurally and basically that domination is internalised by the agents so that such a relationship is considered normal (p. 47).

Another aspect, showing the writer's ideals is the questions she launches demanding amelioration of situations detrimental of women. She queries among other things why women, who work harder and longer compared to men, receive smaller pay. Why do girls drop out of school earlier than boys from the same social stratum. Pudjiwati also queries the small portion of development that is directed towards technological development in order to alleviate the burden of household chores (p. 259). Her ideas become more pronounced when she states that the problem of rural women is closely related to the utilisation of highly potential human resources. Involving the rural women in development is an effective step. In 1971, 60 million people or 50 per cent of the Indonesian population are women, and 50 million amongst them live in rural areas.

The arguments supporting this book sufficiently show the writer's motivation. Obviously, Pudjiwati has the ideals and expectation for the improvement of the life of women, all of which are presented in writing based on situation, data and facts which are logical and realistic, so that the presented problems seem real, natural and easy to understand. No data appear to be unduly fitted in, just to prove the importance of the role of Indonesian women in rural community life. The presented data and analysis supporting the writer's ideas are based on socio-cultural conditions of the rural community.

Particularly in deciding upon the research method to be used, Pudjiwati tries to select the method that is likely to generate good and adequate results. In determining the samples to be used she pointed out that rural women cannot be regarded as a homogenous group and that

there are differentiations as far as activities and difficulties are concerned, particularly seen from the viewpoint of their classes or strata as well as their individual characteristics. In this case it seems important to use enough variations (especially on the basis of their socio-economic status), so that the differentiations in the samples can be analysed (p. 56). In the light of those considerations the respondents are classified into three strata in accordance with their socio-economic status, namely Stratum I (the poor household), Stratum II (medium-scale household), Stratum III (the better-off households). The stratification of mentioned respondents seems to be an accurate step, for it appears that socio-economic differentiation will bring about a difference of attitude between women from one stratum and those from another.

The research area covers two different places, each with different conditions, namely village A (suburban) and village B (rural). Selection of the different research areas was based on the fact that Pudjiwati noticed the different effects on the attitude/life of the community that had been brought about by geographical differences.

In analysing the position of women, at first the writer uses in her approach the notion of "nuclear" family, which is regarded significant and relevant to become the basis for the research of the role of women. Furthermore the writer emphasises on the relationship between men and women, which stems from bilogical and socio-cultural differences. Accordingly in this regard the differentiations in the role, economic allocations, social condition, solidarity, and the allocation of authority and power can be studied. In her study Pudjiwati highlights the position of women as housewives and income earners, their position in decision-making and in social organisations.

The criterion used to value the position of women as housewives and income earners is based on the outlay of labour. To value the position of women in the decision-making process, it is necessary to find out to what extent women's opinion exert influence on the decision-making process in production, basic needs expenditures, raising families and social activities. Hence, the analysis on the role of women in rural communities is directed towards that of the role of women in a household as housekeepers and wives, and their role in the community.

The overall results of this research basically show that women do play a sufficient significant role in rural community life, moreover if it is linked to so many outlays of labour in accomplishing household chores, especially amongst women of the poor household stratum. This research also reveals that women account for a sufficient share in earning income to help support the family's economy beside their husbands as principal income earners. It has also been found out that women from the poor stratum receive smaller returns to labour than those from the better-off stratum, which is also smaller compared with the returns to labour obtained by men of the same stratum. The work undertaken by women from the poorest level is limited in nature, on account of their low education and limited skill.

In making decisions, the voice of women is quite decisive, although in certain areas the influence of men are predominant. However, in general many decisions are made together by husband and wife.

Basically women deem it necessary to take part in social activities, but again they are restricted by their low educational background and limited opportunity to participate in those activities. Women as the main socialisation means to be emulated by the children, says Pudjiwati, are also aware of the importance of education, so that they are willing to have a division of labour in a flexible manner, in order to enable their children to study. Also this does not bring about encouraging result, and the children have to quit school due to lack of financial support.

The problem of rural technology is also presented in this book, especially in conjunction with the insignificant share of contribution that it gives to alleviate the work of women. In the final section of her discussion Pudjiwati touches upon the importance of the

role of women in the effort to improve nutrition in order to ameliorate the living standard of the community.

Having read the arguments of this book and the research findings pointed out by the writer, it appears that the writer's objective has been attained throughout the content of the book, through a systematic organisation and in depth study. On the one hand, Pudjiwati's ideals are obvious in her effort to improve the fate of rural women, on the other hand, those ideals are supported by realistic concepts or views as means to realise her expectations. This research succeeds in expressing the idea that women occupy a very important position in rural community development, by presenting sufficiently adequate data. Many aspects inherent in the life of rural women have been observed and apprehended by Pudjiwati through concepts or means of her research. Perhaps this is precisely the asset of this book, compared with other writings on women that are too general and less detailed.

Through her research the writer has also found out problems that are particularly faced by women living in rural areas. Pudjiwati has not only put forward the problems but she has also looked for a way out through sociological analysis and has given suggestions as to the way out. Pudjiwati puts forward a frame of structure which is useful for the interests of rural women covering the interests of households, community and nation (p. 194, 199 and 256). Her suggestions are technical and operational in nature.

Some corrections that may be put forward are that from the outset of her writing she does not categorise the percentage of her data, such as, how many per cent can be categorised as low, medium or high number of percentage, so that in interpreting the data (in percentage) the writer's subjectivity seems obvious. Aside from that, in putting forward her theory or concepts, her elaborations are at times too broad, which in fact can be reduced so as to make the presented problems more specific.

However, this book does contribute many points, particularly in sociological studies. Each problem is always presented in an appropriate theoretical framework, so that is useful for an in depth study on women issues.

Restoring the International Trading System

Trade Policies for a Better Future: Proposals for Action. Geneva: GATT, 1985, 60 pp. This review article is written by Dr. Djisman S. Simandjuntak, Head of the Department of Economic Affairs, CSIS.

This is a report submitted in March 1985 by the "Seven Wisemen" invited in 1983 by the Director-General of GATT to study and report on problems facing the international trading system. Having had long experiences either as high government officials, top executives, of successful multinationals or researchers in renowned institutions, each of the "Seven Wisemen" reflects a certain authority in dealing with matters related to the international trading system.

The report is concise compared, for instance, to each of the "Brandt Reports." It consists of three chapters entitled consecutively: "The Challenge of Economic Change"; "Why Open Trade is Better Trade"; and "The Way Forward." Each of the titles indicates already the main messages conveyed by the report.

Readers who would like to further inquire he nature and causes of the abuses of the international trading system, will not find this report an enrichment. The same applies to readers who expect to find in the report a clarification of arguments for or against open

trade. Indeed, it is the fifteen proposals for action which constitute the main body of the report. To understand the importance of these proposals one needs to refer to the abundant studies, both theoretical and empirical ones, on the international trading system.

Defining a better future as a "new era of non-inflationary growth, lower unemployment and rising standards of living," the report in Chapter 1 underlines the necessity of change in order to lead the troubled world of 1983 to a better future. The only bridge to a better future is change. If change is facilitated instead of postponed, the world, according to the "Wisemen" is well equipped to repeat the good performance of the 1950s and 1960s. However, pain is in the very nature of any change. The Wisemen acknowledged, therefore, that the temptation simply to resist change will be very great. Needless to say, the intensity of this temptation varies from one country to another. The more intense this temptation is, the more unlikely it will be for the country concerned to approach a better future.

One can hardly find a country which would openly admits it aversion to change. Each government believes that she is progressive, even when the change she has in mind is a journey to the "glorious" past. The "Wisemen," however, have a clear context of change. The world is confronted with far-reaching technological breakthroughs, increased concentration of the world population in the developing countries, increased interdependence of macro-economic policies of nations, and the emergence of some developing countries as aspirants of industrial power. Any change, therefore, that occurs in isolation vis-à-vis the outside world is doomed to be ineffective. The long-term trends of economic reforms in the socialist economies tend to confirm the validity of this statement. That is why trade has a vital role to play in enhancing productive changes.

If trade is the key to productive changes and the latter to a better future, then trade is the key to a better future. The problem, however, is that the international trading system, GATT, is suffering from a serious and continuing erosion. The commodity and country coverage of GATT is limited from the outset.

Agricultural products and services are excluded from GATT. All that are applicable to these items are national policies or separate international agreements which violete the spirit or letter of GATT. One agreement after another has led to a de-facto rejection of GATT as regards trade in textiles between the developed and developing countries. Had competitive suppliers refused to restraint their export "voluntarily," a range of products such as, steel and electronics would have similarly been the victim of special arrangements outside GATT. While GATT contains some rules of waving in case of an emergency, the signatories create an "emergency" in order to wave the basic rules of GATT. The erosion of GATT is so blunt that the "Wisemen" did not find it necessary to address it in great length. Indeed, governments around the globe admit it in their own way, when they refer to the grave impacts of the "world protectionism" upon their economic performance.

OPEN TRADE IS BETTER TRADE

It would certainly be unwise for the group being invited by GATT to argue as if there is better trade than open trade. On the other hand, to deny the validity of some arguments for rejecting open trade would mean referring to a world that never exists. It follows that open trade is a matter of degree. There is no such thing as a completely open trade, not even within a Common Market or Free Trade Area, let alone in the world that is divided in many ways, notwithstanding the uniting forces which emerge from technological development. But then, a very difficult question which arises as a borderline is, for instance, the button in the trousers of a soldier without which he cannot run into a battle, of strategic importance? If it does, then everything seems to be of strategic importance, including leather, out of which the soldier's shoes are made. If one applies the same interpretation to other valid arguments for protection, then a wholesale protection will be the result. However, if everything is of strategic importance, then nothing is as strategic as

it seems to be. The guns, the combat aircraft and battle ships can then be procured according to an economist's abstract model of open trade.

It is fruitless to pursue an exhaustive debate on this controvercy. The fact of life is that a more open trade may prevail under certain circumstances while a more restricted trade prevails under different circumstances. What the "Wisemen" have underlined in their criticism of the present international trade environments is the tendency of nations to resort to mistaken protection for the cure, while postponing adjustment as long as possible. Nevertheless, there is a missing link between what the "Wisemen" call valid arguments for protection and what they call the "illusion of protectionism" where all the wellknown arguments for protection are rejected.

Contrary to the context of change depicted by the "Wisemen" according to which the future expansion of the world trade will increasingly depend on the markets of the developing countries, little was said about the protectionism of the developing countries. The way the "Wisemen" criticised protectionism is largely based on the practices of protectionism in the developed countries. The "Wisemen" might have assumed silently that the return of the major trading countries to open trade is a necessary condition for re-establishing the international trading system and, at the same time, a sufficient condition for other countries to follow according to the "dominant-power" paradigm on international regime. However, whatever the reasons actually are, more attention needs to be paid to trade policies of the developing countries in general and to those of the more advanced among them in particular.

THE WAY FORWARD

Having argued that restricted trade is inferior to an open one, the "Wisemen" proceeded to mentioning fifteen proposals deemed necessary to restore the international trading regime. All of them are equally important. However, the reviewer refrains from commenting on them one by one and draw instead attention to those proposals which are of direct relevance to the participation of the developing countries in a new round of GATT negotiations.

The developing countries may have a more favourable attitude towards a new round of multilateral trade negotiations, if there are indications from the developed countries as to their willingness to comply with GATT in respect to trade in agriculture and textiles. Many observers, including the "Wisemen" agree that a liberalisation in these two areas would bring about an improvement in the balance of payments of many developing countries on the one hand and a substantial relief for the developed countries in terms of budget policy on the other. Unfortunately, the gesture does not appear so far. It is discouraging to observe that the EEC is determined to defend its Common Agricultural Policy, notwithstanding the apparent necessity for relaxing this policy in view of the mounting financial burdens it imposes on the Community. Similarly disappointing is the pursuance of the United States to extent the coverage of a new MFA to the few items that, by way of exception, are not covered by the present MFA III.

Given this background, the proposal of the "Wisemen" to restore GATT in agricultural and textile trade is of crucial importance. While a total dismantling within a single round of negotiations appears very unlikely, the developed countries should seriously consider a relaxation of their trade regimes in these two areas. Priority needs to be put on the most severe elements of the regimes. This would mean a refrain from imposing variable levies on imports and a reduction of export subsidies in the agricultural trade and a gradual removal of quantitative import restrictions in the textile sector, however unrealistic this demand seems to be at first glance. The developing countries on the other hand, should learn to appreciate any concession in these two areas, however modest it may be. Maintaining a "maximalist position" is not the correct way to a fruitful negotiation.

The tenth proposal of the "Wisemen" concerns a more fully integration of the developing

countries into the international trading system while maintaing additional help to the least-developed countries in developing their trade. This proposal is based on the findings of many exploratory studies according to which a world-wide, non-discriminatory liberalisation is more beneficial to the developing countries than a unilateral, preferential treatment such as the GSP. Many developing countries are suspicious of these research findings and insist, accordingly, on a preferential treatment. They reject the reciprocity norm of GATT, arguing that to give equal treatment to the rich developed countries and the poor developing countries is an act of discriminating the developing countries. While there is a truth in this statement, some pitfalls need to be clarified.

Compliance to non-discrimination and reciprocity does not exclude the possibility of a liberalisation that promises greater gains to developing countries than to developed countries, as noted before. This would be the case, if a progressive reduction of tariffs on agricultural products and textile products can be achieved in a new round of negotiations.

Secondly, it is illusory to expect that the developed countries will ever provide a binding, wholesale preferential treatment in favour of the developing countries. All of that Part IV of GATT and the results of the Tokyo Round included, are non-binding appeals to the developed countries to give a more favourable treatment to the developing countries to "the most possible extent." Notably the Generalised System of Preferences is a unilateral, non-binding preferential scheme. Its country and commodity coverage, the nature and depth of the preferences it provides and its administration are all at the disposal of each of the developed countries. There is no need to consult the developing countries on the possible exclusion of certain items from the scheme. In fact, the GSP has never been so general as the name suggests. Similarly, the "development norm" of GATT has never been so generous as the heading implies. In short, it is more than questionable whether the existing preferential treatment has benefitted the developing countries more than a non-discriminatory treatment would have.

Thirdly, the group of the developing countries has increasingly diverged in terms of their trade interests. Some of them have proved successful in building a strong foothold in international markets for manufactures, including high-tech products, while others continue to live in poverty, possessing a very small surplus of few commodities that needs access to international markets. One of the implications of this development is that it will be increasingly difficult for the more advanced developing countries to resist the pressure for a reciprocal liberalisation of their trade. It means that some developing countries are likely to join a new round of GATT, notwithstanding the apparent disintegrating effect of such a step on developing countries.

Finally, the need for less protection has increasingly been realised by many developing countries, although the temptation not to bind any reduction internationally is also great. The reason behind this changing attitude is clear. At times when the manufacturing sector could rely on protected markets and the needed foreign exchange could be made available through international borrowing, international competitiveness is less compelling. However, when domestic markets are saturated and the "reservoir" of the international capital markets is drying out, every possible source of efficiency needs to be tapped in order to improve export competitiveness. Obviously, less protection on capital goods and intermediate products, which together constitute the lion share of the imports of the more advanced developing countries, is one among the sources at the disposal of the countries concerned.

It follows from the above argument that a non-discriminatory liberalisation may turn out to be more beneficial to the developing countries than a preferential treatment which is subject to continuous erosion. However, the actual gains from a multilateral trade negotiation is dependent on the specific results. A more active participant who clearly understands the prevailing international trade environment is likely to gain more than a passive one.

The proposal of the "Wisemen" in respect to trade in services is inconclusive in the sense

that it is basically an appeal to governments to examine ways and means of expanding the trade in services, and to explore whether multilateral rules can appropriately be devised for this sector. While the need for international rules is realised, it is worried that the involvement of GATT in services would lack the credibility, as long as agreements cannot be reached on issues related to merchandise which is supposed to be the main concern of GATT.

Most developing countries would find this proposal acceptable as it refrains from pushing on the liberalisation of trade in services in a new round of trade negotiations. It will take time before the developing countries can define a clear position on this issue, given the complexity of the questions involved. An agreement on the coverage of services will be very difficult to reach in view of diverging interests of the parties concerned. Will it, for instance, be unfair for developing countries to ask for better access for their service-embodying-labourers to the markets of developed countries in exchange of better access to the developing countries for disembodied services such as engineering consultancy which can now be stored and transmitted with the help of the telematic industry? Some may find this question rhetorical rather than substantial. However, it clearly indicates how difficult it would be to define the coverage of services. Furthermore, the nature of protectionism in the trade in services is different from that of the trade in merchandise. It is not the tariff or quantitative import restrictions that are of prime importance in the trade in services. Instead, procurement policies, monopoly of state enterprises as well as the various instruments of protecting intellectual property rights which are the main barriers to the trade in services. Being part of protectionist measures many of them are difficult to criticise.

A state monopoly in PTT is generally accepted as a legitimate way to protect national interest, however, damaging it may be to trade in information and the related hardwares. Needless to say, that most of the protection instruments imposed on trade in services are less quantifiable than tariffs or quantitative restrictions on trade in merchandise. Accordingly, exchange of concessions will be more difficult to facilitate. No wonder that most countries are sceptical of an immediate negotiation on trade in services. Very few countries are likely to follow the American position which in turn has remained vague despite the strong demand for an immediate liberalisation of the documented, inter alia, 1984 Tariff and Trade Act. This question on issue-linkage has turned out to be a serious obstacle to an immediate launching of a new GATT-round, the primary goal of which, according to the "Wisemen," should be the strengthening of the multilateral trading system, instead of overburdening it with new issues in addition to the existing intricate ones.

The last proposal of the "Wisemen" draws attention to the interdependence of economic issues, referring among other things to the debt problems facing many developing countries. Progress in a new round of multilateral trade negotiations is dependent on the developments in other branches of economic policy. It will be counterproductive to insist on trade disciplines while escaping international responsibility on fiscal or monetary issues. However, overloading a single round of trade negotiations with very diverse issues may result in a failure as the "UNCTAD Rounds" vividly show. That is why the "Wisemen" underline to need for a more effective IMF or World Bank in addressing the issues involved in their respective fields. A more generous "compensatory Financing Facility" for instance, would promote a more positive attitude of the developing countries vis-à-vis the IMF. Similarly, a less orthodox financial policy of the World Bank would weaken the prejudice developing countries have in respect to the developed countries' role in the World Bank.

THE LIKELY RESPONSE

It has been pointed out earlier that the "Wisemen" report is not intended to scrutinise the weirdness sorrounding the present international trading environment. That kind of report has been available in abundance and is continuing to multiply. Therefore, a group such as the "Wisemen" can rely on them in designing their proposals which are aimed at

getting things moved rather than merely clarifying them.

The report hardly contains new proposals. They were known to governments and traders, at least in a fragmented way, long before the report was published. Would it mean that the report is useless in the sense that it would not be stimulating to governments to re-consider their trade policies? This is a difficult question. In view of what is happening to the world trade scene in the last few years, it seems to be misplaced to expect that the report will make things different, notwithstanding the reputation each of the "Wisemen" has earned through their respective experiences. Nonetheless, the report is a warning to governments on the damaging effects of their present negligence on the international trading system just at a time when the world is increasingly interdependent. Individual governments may overlook the messages conveyed by the report but it provides another opportunity to put into question the way presently governments conduct trade.

The Face of PPP: From Crisis to Crisis

The Strategy of PPP during the Period of 1973-1982: A Study on the Islamic Political Force on the National Level (In Indonesian: *Strategi Partai Persatuan Pembangunan, PPP, Semasa 1973-1982 -- Suatu Studi tentang Kekuatan Politik Islam Tingkat Nasional*) by Umaidi Radi. Jakarta: Integrita Press, 1984, 212 pp. This review article by Kusnadi is translated from *Optimis*, January 1985.

An in depth study on the role of political parties during the New Order, especially after the fusion of ten political parties (Including Golkar) to become three major political forces namely, the United Development Party (PPP), Golkar (the Functional Group) and the Indonesian Democracy Party (PDI), has not often been conducted, if at all. Perhaps it is considered to be still too early due to the fact that the fused parties are still relatively young and that their role is not that significant yet in national politics.

However, it is a good sign when a daring attempt is made for a breakthrough of the conservative view cited above. And Umaidi Radi seems to succeed in gaining the good momentum. This is marked by the publication of his scientific writing being originally his thesis in obtaining the degree of Magister Artium at the Postgraduate Faculty of the University of Indonesia, entitled: *Strategi Partai Persatuan Pembangunan (PPP) Semasa 1973-1982 -- Suatu Studi tentang Kekuatan Politik Islam Tingkat Nasional*, which is the topic of our discussion.

FROM PLURALITY TOWARDS UNITY

The political history of Indonesia has since the beginning of its independence been marked by protracted political conflicts. This can be noted from the periods of the Western Style Liberal Democracy and the Guided Democracy. What can be observed during the periods of the two mentioned systems of democracy according to Dr. Alfian, is the existence of two kinds of extreme patterns of political behaviour, namely: (1) unlimited political freedom which brought about protracted political conflicts, and (2) the restrained political freedom which virtually ruled out conflicts or critics. Whereas the result of the practice of the two systems did not entail any significant benefit to national development in general and to the political development in particular.

During the early period of the New Order after the regime eliminated two major political strongholds of the Guided Democracy period, namely Soekarno and the Indonesian Communist Party (PKI) -- the two kinds of political behavioural pattern cited above became the bulk of serious considerations. In

other words, during the early period of the New Order Regime political issues became the main items to be solved first. This was obvious in -- the Two-fold Task (Dwidharma) of the Ampera Cabinet under the leadership of Acting President Soeharto who placed political stability as the first priority over economic stability. Whereas we know that prior to that the previous president left behind a legacy of inflation of more than 600 per cent.

As a follow-up of establishing political stability, effective operational steps were taken. Ideologieal problems (on account of their sensitiveness) had to be tackled first. Complicated experiences like those during the sessions of the Constituent Assembly, which showed that the ideological polarisation of Islam -- Pancasila has strongly crystallised, became material for serious considerations. Meanwhile the successful outcome of these ideological steps should constitute a national consensus not to question Pancasila anylonger as the state principle.

Based on the steps referred to above one may draw the conclusion that the government took into account the Islamic political parties very cautiously. But in the midst of the endeavour to create political stability and de-ideologisation, the government suddenly took a daring step by approving the establishment of Parmusi (Partai Muslimin Indonesia = Indonesian Moslem Party) on 5 February 1968, after undergoing a winding process. Through the establishment of Parmusi, according to its initiators, it was expeeted that the party would accomodate the aspirations of the moslem community that had not yet been accommodated by NU (Nahdlatul Ulama), PSII (Partai Syarikat Islam Indonesia = Indonesian United Islamic Party), and Perti (Persatuan Tarbiyah Islamiyah = Islamic Political Party). The initial period of Parmusi -- which was nota bene regarded as the legal heir to continue the struggle of Masyumi (Majelis Syuro Muslimin Indonesia = Council of Indonesian Moslem Association) disbanded by Soekarno in 1960 -- like other political parties, was not free from internal crises and confliets. And those crisis only terminated after H.M.S. Mintaredja and Sulastomo were brought to the fore as the party's chairman and secretary respectively with some objections (pp. 68-74). Consequently at that time there were four Islamic parties.

Entering the 1971 General Elections ten political parties were listed as contestants. The Armed Forces (Government) however had prepared Golkar on which they rely and which was nota bene called the Armed Forces' full brother came out as the winner, gaining 62.68 per cent of the votes, which was an absolute majority for which Golkar obtained 231 seats in parliament out of the 360 seats contested (pp. 75-76). On the other hand, the four Islamic parties (NU, PSII, Parmusi and Perti) were only able to gain 97 seats in parliament.

Golkar's absolute victory was the right momentum for the government in paving the way towards the reform of the political system in Indonesia and simplifying the number of political parties, the idea of which had been incorporated in the Decree of MPRS (Provisional People's Consultative Assembly) No. XXII/1966 (p. 63). And the implementation of the Decree was finally realised after the president had submitted the grouping of political parties to the House of Representatives, which brought about the following result: (1) The United Development Group, PPP; (2) The Democracy Development Group, PDI; and (3) The Functional Group, Golkar. Those three groups were the embroys of the present three political forces, of which their existence was ensured in Act No. 3/1975.

Before the official fusion of Islamic parties into the United Development Party, there had been some different viewpoints on the forming of the new Islamic Party, either amongst the Armed Forces (ABRI) or amongst the party concerned. One of the views worrying about the fusion came from amongst ABRI themselves. Acording to them, the fusion of Islamic parties cited above would become a potential power that may become a threat to ABRI (p. 79). This view may be based on the existenee of Islamic separatist movements that had coloured the history of the Republic in the 1950s and the 1960s which put ABRI in a position of a spearhead in facing those separatist movements. Whereas different viewpoints in

the party were on the one hand still dominantly motivated by the interests of party elements (NU and PSII) while there was on the other hand an urge to immediately form a fusion so as to develop a new force of Islamic parties which had during the two general elections of 1955 and 1971 never won an absolute victory, whereas 90 per cent of the Indonesian people adhere to the Islamic religion (Parmusi and Perti). Despite the differences of opinions, finally through deliberation the fusion was accomplished, which was marked by the Declaration of the Establishment of the United Development Party (PPP) on 5th January 1973, entailed by functional institutions of the party (pp. 79-103).

OPENING OLD SORES

Apparently serious cases faced by PPP since the fusion from 1973-1982 (Chapter IV) constitute the main part of this chapter. The presentation of those events is as it were, like opening old sores that had almost been forgotten. On the other hand, their presentation should still invite us to reflect on them for a while. This is due to the fact that in technical terms the discussion on those happenings is felt as "re-photographing the facts of the events," without being accompanied by a critical attitude and an in depth study on the basic causes of those events, especially in the context of the national development strategy which has so far been adopted by most of the Third World countries, including Indonesia.

An important event presented in this book is among other things the non-occurrence of the party's congress during the period of ten years after the fusion. The reasons that are given for the non-occurence of the congress are that there has not been a common outlook, aside from the mutually suspicious attitude amongst the leaders of the PPP elements (pp. 105-110). Besides, during the 1973 General Sessions of the People's Consultative Assembly (MPR), when the GBHN (Guidelines of State Policy) were being discussed there was a difference of opinion between the government (Golkar) and PPP concerning matters in the economic, socio-cultural and political fields minus that of defence and security (p. 112). In the political field the floating mass principle was considered by PPP as being at the disadvantage of the party because it cuts off the main communication line between the party and its traditional supporting mass in rural areas (p. 113). This may also be interpreted that the floating mass principle in our party system is opposed to the essence of Pancasila and the 1945 Constitution. Because this principle implies a political discrimination against the popular masses in rural regions which nota bene constitute a majority of the population and the most meritorious productive force in national development. The mentioned principle also means to establish a leaderhip mechanism that is alienated from the problems faced by the popular masses.

In the economic field, PPP also ascertained the danger of a capitalistic concept and strategy of economic development (p. 114). This was due to the fact that a capitalistic economic life was feared to become a new political force (e.g. an alliance of entrepreneurs and the ruling class that may endanger democratic economic and political life), which may only appear on the sub-surface, unobtrucively though, was very decisive in the decision-making process of state and social affairs and might be detrimental to the interests of the people at large.

Another important event was the issue on the Bill of Matrimony which had been hotly debated and terminated successfully (pp. 115-132). On the other hand during the 1978 MPR General Sessions something unforeseen happened, when the draft of the decree on P-4 (the Guide to the Living and Practice of Pancasila) and the issue on the Belief in the One and Only God were being discussed. Some PPP members who were unsatisfied staged a walk out. In facing this problem each element had a different point of view. But NU took a very radical stand (p. 150). Not long after the General Sessions, Sjafei Sulaiman and associates interpellated in Parliament upon NKK (Normalisation of Campus Life) as a reaction to the Decision of the Minister of Education and Culture No. 156/U/1978 (pp. 159-162). Apparently the two latest happenings were taken into account by the government. This

can be noted from the crisis inflicting upon PPP in 1982; the interference of a third party (government) in an attempt to remove the radical (NU) party leaders seemed very obvious. Hence the crisis that inflicted upon PPP in 1982 was not merely brought about by the different point of views on the distribution of seats to each element, or by the forwarding of the tentative list of DPR members, but it was obviously more than that.

What we can observe from the important events faced by PPP during the period of 1973-1982 was the defeat and the victory of the party in its efforts to struggle for the party's aspirations, aside from the disorders that happened within the party. These party's internal conflicts greatly affected the existence of PPP. As can be noted, the crisis just before the 1982 General Elections led to PPP losing five seats in parliament.

THE PARTY'S PROSPECT IN THE FUTURE

One may say that the culture of internal conflicts within a party constitutes a characteristic of political parties in Indonesia. Islamic parties are not excluded from such a tragedy. And PPP could not shed itself from this kind of legacy. As a result, the party's strategy to achieve its fixed objectives was hampered at the crossroads.

Whereas the internal conflicts of PPP were practically coloured by a variety of different interests and views both between elements and invidual (especially from the older generation of NU, and Muslimin Indonesia, MI). Besides, the problem of complicated organisational structure of parties were very confusing (pp. 182-186).

To face the internal conflicts within parties, Dr. Alfian once said that internal conflicts within parties could be considered natural. But it would become unnatural if they occured not because of the ideals that have to be strived for by thc party, but on account of matters aside from those ideals, such as personal interests. And seemingly the conflicts within PPP started from this kind of unnaturalness. This can be seen from the political stand and behaviour of J. Naro (p. 186) which I am more inclined to call a partnership of the government.

J. Naro's successful attempt to get rid of his friends whose voicings were controversial, may be regarded as an early effort to overcome the conflicts and terminate the crisis within PPP. But the problem is not that simple, since the ordeal will last longer. Apparently the issue on the party's congress is very important as a therapy for all that. PPP which for almost ten years has never held a congress, could eventually do it in August 1984. As a result: the NU faction was severely hit by MI (Muslimin Indonesia) and J. Naro was re-elected as the general chairman of the party. In addition, as to the party's institution, the office of the party's president and the Syuro Council in the new Central Executive Board (DPP) have been abolished, whereas the Deliberative Council of the Party has been maintained. And the most monumental result was the acceptance of Pancasila as PPP's sole principle (*Tempo,* 1 September 1984).

The prospect of PPP based on the sole principle still remains a mistery (pp. 191-192). One may however, as well predict its future in the light of important events experienced by PPP and based on an accurate and careful study. As to this problem Arbi Sanit once predicted in a discussion that a change of principle and nature of a party from a closed to an open one would bring about an increasingly gloomy prospect for the PPP (*Sinar Harapan,* 29 October 1984). Moreover, since NU, as the largest element in PPP, asserted that it was not a political organisation, although historically NU's contribution in establishing PPP had been substantial. In addition to that is the protracted internal conflict. A case in point was that some time ago Syarifuddin Harahap warned J. Naro to resign immediately from his position as general chairman of PPP (*Berita Buana,* 30 November 1984). His conclusion is: from crisis to crisis has been the face of PPP until now. Hence whether Arbi Sanit's prediction is right or wrong is finally for the facts of history that will prove it.

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